High Cost and Low Income Committee

Audit Reports Briefing Book

Monday, January 29, 2024

Available for Public Use

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

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

Entity Name	Number of Findings/ Other Matters	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Eastex Telephone Cooperative, Inc. **Attachment A**	2	• Inaccurate Depreciation Calculation. The Beneficiary used month end balances for one month instead of average monthly balances to compute depreciation expense and used a Vintage Year Mass Asset methodology rather than a Mass Asset methodology.	$15,709,040	($4,610,503)	$0	Partial
Duo County Telephone Coop Corp., Inc. **Attachment B**	1	• No significant findings.	$9,840,564	$69,968	$69,968	Y
T-Mobile Puerto Rico, LLC [Deutsche Telekom AG (Suncom Wireless)] **Attachment C**	1	• No significant findings.	$4,441,131	$0	$0	N

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Entity Name	Number of Findings/ Other Matters	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Hill Country Telephone Cooperative **Attachment D**	2	• No significant findings.	$794,088	($7,759)	$0	N
Virgin Islands Telephone Corporation (Vitelco) **Attachment E**	1	• No significant findings.	$6,865,850	$0	$0	Y
Liberty Cablevision of Puerto Rico, LLC n/k/a Liberty Communications of Puerto Rico, LLC **Attachment F**	1	• No significant findings.	$11,091,660	$0	$0	Y
Preston Telephone Company **Attachment G**	1	• No significant findings.	$1,558,958	($8,445)	$0	Partial
South Central Rural Telecommunications Coop, Inc. **Attachment H**	4	• No significant findings.	$12,130,212	($115,027)	$0	Partial

Entity Name	Number of Findings/ Other Matters	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Wood County Telephone Company **Attachment I**	2	• No significant findings.	$8,334,907	$26,399	$26,399	N
Liberty Mobile USVI, Inc. f/k/a AT&T Mobility USVI, Inc. **Attachment J**	1	• No significant findings.	$4,719,926	$0	$0	Y
East Ascension **Attachment K**	1	• No significant findings.	$3,577,655	$35,421	$35,421	Partial
Total	**17**		**$79,063,991**	**($4,609,946)**	**$131,788**	

Attachment A

HC2021LR009

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

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

Prepared for: Universal Service Administrative Company

As of Date: 9/7/2023

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

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EXECUTIVE SUMMARY

September 7, 2023

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to Eastex Telephone Cooperative, Inc. Study Area Code ("SAC") No. 442068 ("Eastex" or "Beneficiary") for disbursements, of $15,709,040 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019. Our work was performed during the period from August 17, 2021 to September 7, 2023 and our results are as of audit fieldwork end date September 7, 2023.

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

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program (collectively, the "FCC Rules") relative to disbursements, of $15,709,040, made from the High Cost program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our audit objective.

As our report further describes, KPMG identified two findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost Program for the twelve-month period ended December 31, 2019 were $4,610,503 lower than they would have been had the amounts been reported properly.

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

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

Sincerely,

KPMG LLP

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

List of Acronyms

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]			
	HCL	CAF BLS	CAF ICC	Total
HC2021LR009-F01: 47 C.F.R. 54.903(a)(4) Inaccurate Revenues – The Beneficiary was unable to reconcile the reported revenues to its internal records and it did not make timely adjustments to the reported revenues as prescribed by FCC Rules.	$0	($3,623)	$0	($3,623)
HC2021LR009-F02: 47 C.F.R. § 32.2000(g)(2)(iii) - Inaccurate Depreciation Calculation – The Beneficiary used month end balances for one month instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules and Beneficiary used a Vintage Year Mass Asset Methodology rather than a Mass Asset Methodology.	($3,368,378)	($1,238,502)	$0	($4,606,880)
Total Net Monetary Effect	($3,368,378)	($1,242,125)	$0	($4,610,503)

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

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 442068, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	-	($3,623)	-	($3,623)	N/A
Finding #2	($3,368,378)	($1,238,502)	-	($4,606,880)	N/A
Mechanism Total	**($3,368,378)**	**($1,242,125)**	-	**($4,610,503)**	

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

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program relative to disbursements, of $15,709,040, made from the High Cost program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

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

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

High Cost Support	Disbursement Amount
CAF BLS	$6,906,708
CAF ICC	$1,872,660
HCL	$6,929,672
Total	$15,709,040

Source: USAC

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

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

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

OBJECTIVES

The audit objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost program relative to disbursements, of $15,709,040, made from the High Cost program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost program forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost program forms or other correspondence, and evaluation of disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work was focused on the High Cost program forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost program during the twelve-month period ended December 31, 2019.[2]

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

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

PROCEDURES

1. **Materiality Analysis**

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

2. **Reconciliation**

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

3. **Assets**

   KPMG utilized a monetary unit sampling (MUS) [4] methodology to select 28 asset samples from material accounts identified in the relevant High Cost Program forms. We made asset selections from CPR details, and material accounts included COE, C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by underlying

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

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

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

documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

4. **Expenses**

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

5. **High Cost Program Filings**

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

6. **COE Categorization**

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

7. **C&WF Categorization**

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

8. **Overheads**

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

9. **Taxes**

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

10. **Part 64 Cost Allocations**

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

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions including leased property, tariffed services, and labor/benefit allocations. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For every sample selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2 and categorized in the appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

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

13. Revenue Requirement

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

RESULTS

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

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

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

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

CONDITION

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

CAUSE

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

EFFECT

KPMG calculated the monetary impact of this finding by subtracting or adding the value of the overstatement from, or understatement to, the total amount reported by the Beneficiary in its respective account or line items on the HC forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an underpayment of $3,623 as summarized below:

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

RECOMMENDATION

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

BENEFICIARY RESPONSE

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

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

CONDITION

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

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

Account Description[5]	**For the 12 months ended December 31, 2017 $ Variance**
Account 3100 (2100): Accumulated Depreciation - General Support Assets	$538,523
Account 3100 (2210): Accumulated Depreciation -Central Office Switching Equipment	($148,381)
Account 3100 (2230): Accumulated Depreciation -Central Office Transmission Equipment	$310,337
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$5,275,615
Account 6560: Depreciation and Amortization Expense	$5,976,094

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

CAUSE

The Beneficiary did not have adequate processes in place to validate appropriate methodology of mass asset average monthly balance depreciation occurred, including adjusting entries, to have the total depreciation expense and accumulated depreciation align with FCC Rules.

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

EFFECT

KPMG calculated the monetary impact of this finding by subtracting or adding the value of the overstatement from, or understatement to, the total amount reported by the Beneficiary in its respective accounts or line items on the HC forms relative to disbursements made from the High Cost program for the twelve-month period ended December 31, 2019. This resulted in an under-payment of $4,606,880 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($3,368,378)
CAF BLS	($1,238,502)
CAF ICC	N/A
Total	($4,606,880)

RECOMMENDATION

KPMG recommends that the Beneficiary enhance the preparation, review and approval processes governing the calculation of depreciation to ensure compliance with FCC Rules and Orders. We recommend that the Beneficiary inquire with the FCC regarding clarification on 32.2000(g) and guidance on recalculation of prior period depreciation expenses. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Eastex has reviewed the report for Eastex Telephone Cooperative, Inc. - Performance Audit for the Universal Service High Cost Program – Disbursements Made During the Twelve-Month Period Ended December 31, 2019.

Eastex is in general agreement with the report; however, Eastex maintains that its mass asset vintage year depreciation methodology is an acceptable methodology/interpretation of Title 47 Chapter/Subchapter B Part 32 Subpart C Section 32.2000(g), as further addressed below.

Vintage Year Mass Asset Methodology v. Mass Asset Methodology

As was discussed during and subsequent to the audit, Eastex has used the Vintage Year Mass Asset Methodology from January 1, 2009 until October 1, 2021. On October 1, 2021 Eastex began using the Mass Asset Methodology.

Eastex respectfully request that the cooperative be allowed to leave the depreciation calculations made under the Vintage Year Mass Asset Methodology through the September 30, 2021 date as Eastex has been in compliance with the auditors' suggestion since October 1, 2021. Eastex believes the auditors' suggestion should be handled prospectively, and not applied to a past time periods which could require restating financial records. As discussed below, Eastex is not aware of any official declaration that Vintage Year Mass Asset Methodology does not comply with the federal depreciation rules and, in fact, such methodology has been found to comply with the FCC's depreciation rules through two prior audits.

Eastex believed Vintage Year Mass Asset Methodology to be an acceptable methodology/interpretation of Title 47 Chapter/Subchapter B Part 32 Subpart C Section 32.2000(g) as explained in the attached letter received August 22, 2008 and implemented by Eastex, January 1, 2009. In fact, Eastex has had several USAC audits since this change was made - and no changes were recommended for the audits of 2011 and 2017. Eastex did not have knowledge that the vintage year mass asset depreciation method was deemed to be no longer be allowed until attending USACs GoToWebinar - Avoiding Common Audit Findings, on Wednesday, October 26, 2022 (via a verbal comment made by a presenter that was not a bullet point on the slide presented). It appears to Eastex that a method that was allowed, is no longer allowed, which is fine, but Eastex believes that this needs to be handled prospectively, and not applied to the past time periods.

Again, effective October 1, 2021, Eastex did convert the depreciation back to a Mass Asset Depreciation Accounting, in which Eastex identified the fully depreciated portion of all of the plant accounts, and separated them into separate accounts, and continued depreciation at PUC approved depreciation rates on those accounts that are not fully depreciated.

Vintage Individual Asset Depreciation v. Vintage Mass Asset Depreciation

Eastex was utilizing a mass asset (vintage year) depreciation methodology for the audit period whereby individual assets of a given asset types were grouped together in mass asset accounts for a given year and depreciated over the life of the account utilizing the approved depreciation rates. For example, all Cable and Wire Facilities placed into service during 2017 were grouped into a mass asset account in account 3100 and depreciated at the approved depreciation rate. Cable and Wire Facilities placed into service in 2016 were also grouped together in a mass asset account for 2016 and depreciated at the approved depreciation rate.

Conclusion

Eastex is concerned that recalculating prior period depreciation expense, as the auditors' calculations suggest, could have a negative impact on the cooperative's prior financial statements and believe that it would be improper to apply the suggested methodology retrospectively, particularly when there has been no declaration from the FCC clarifying Part 32.2000(g) and given that prior USAC audits have specifically reviewed and approved the cooperative's Vintage Year Mass Asset Methodology in two prior USAC audits.

Eastex Telco Depr Acctg Letter.pdf

KPMG RESPONSE

We note this finding aligns with the current rules guidance under Part 32.2000(g). KPMG notes that results of past audits are not indicative of future audit results. We express no position regarding the effect the audit results have on any periods outside the scope of our audit period.

Curtis Blakely & Co., PC
Certified Public Accountants & Consultants

August 22, 2008

Mr. Weldon Gray, CFO
Eastex Telephone Cooperative, Inc.
P.O. Box 150
Henderson, TX 75653

Dear Weldon:

Many telcos are experiencing a situation where plant accounts depreciated on a group basis have large balances and are fully depreciated, or nearing that point. This is causing a dilemma where a large addition may occur in a month and, due to the depreciation rate being applied to such a large balance, the effect is that the entire addition may fully depreciate within a short period of time, such as the following month. Essentially, capital assets are being expensed upon purchase. This does not seem reasonable or logical and is an indication that the approved group depreciation rate is too high or possibly that retirements are not being reported and recorded. This letter describes an alternative depreciation method designed to alleviate this problem.

As members of NECA and Federal USF recipients, small regulated telcos are required to comply with Part 32. The Texas PUC has adopted Part 32 guidelines in certain areas as well. Part 32.2000 (g) specifies the accounting for depreciation. Some of the provisions of 32.2000 are as follows:

> (g)(1)(i) "depreciation percentage rates shall be computed in conformity with a group plan of accounting for depreciation." 32.2000 (2)(i)
>
> (g)(2)(i) "A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges."
>
> (g)(2)(ii) "shall apply such depreciation rate … as will ratably distribute on a straight line basis the difference between the net book cost of a class or <u>subclass</u> of plant and its estimated net salvage".
>
> (g)(2)(iii) "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."

There are several references in section (g) to requirements for approval by the Commission. This is referring to the FCC. The small regulated telcos are not required to obtain FCC approval for depreciation rates or extraordinary retirements. This is regulated by state commissions. In Texas, all depreciation rates of regulated telcos are subject to Texas PUC approval or were grandfathered upon creation of the PUC and, presumably are on file with the PUC. PUC substantive rule 26.206 Depreciation Rates governs depreciation rate filings. Section (b) of rule 26.206 does not apply to the small DCTUs as their rates are not subject to FCC approval. Of note in section (d) is the fact that the PUC does not specify a method of depreciation.

Group method depreciation is a GAAP method; therefore, it may be used for nonregulated affiliates. No gain or loss is recognized on retirements of assets depreciated using the group method. Part 32 requires that all depreciation rates be calculated using a group plan and specifies that no gain or loss be recognized on dispositions. Gain or loss may be recognized on disposal of assets owned by affiliates that are not depreciated on a group basis.

Conclusion

One possible solution to the problem described in the first paragraph is to file for lower depreciation rates for certain categories of plant. This will not be an immediate solution. The lower rate will still be applied to a large account balance so it will only serve to slightly decrease the rate of depreciation on current additions.

An inventory of plant in service to determine if large retirements have gone unrecorded could help the situation. While recording retirements will not change the book value of the plant, it will reduce the depreciable balance to which the rate is applied.

Small regulated telcos are required to use state commission approved rates computed in conformity with a group depreciation method. Part 32 paragraph 32.2000 (g)(2)(ii) requires the rate to be applied, on a straight line basis, to classes or subclasses of plant but these are not defined. "Category of plant" as used in 32.2000 (g)(2)(iii) is also undefined. Telcos have historically applied approved rates computed on a group basis to entire plant accounts but they have also applied them to individual items, mainly for vehicles and other support assets.

It is CB&Co's opinion that group rates could be applied on a vintage year basis to regulated plant accounts and still comply with the group method requirement. This would require maintaining a depreciation schedule by vintage year and applying the group rate for a particular account to each year. Depreciation for the current year additions could be computed using the average monthly balance for the current year vintage or the prior month ending balance as the basis for depreciation. Once a vintage year's book value reaches the salvage or negative salvage value used in computing the group rate, depreciation would cease for that year.

Using a vintage year method would require adopting an assumption for retirements, such as, first-in-first-out (FIFO). Using FIFO, retirements would be removed from the earliest year first. If not completely absorbed, the remaining retirement value would be removed from the next year. If a vintage year is not fully depreciated, the amount removed from accumulated depreciation (AD) on the depreciation schedule will move forward into subsequent years faster than the reduction of the plant cost. Also, there could be situations where salvage is recorded but the asset and AD have been removed, in which case, the salvage could be recorded in the next vintage. The same could occur for cost of removal (COR). For central office equipment, CPRs may identify the year equipment was installed so that FIFO would not be necessary. FIFO would be the most logical assumption for cable and other outside plant.

There are certain accounts that have a negative salvage value due to COR. If the negative salvage factor used to determine the depreciation rate were 30 percent, each vintage would be over depreciated by 30 percent of the cost basis.

Adopting a vintage year group method will affect depreciation expense in the year of adoption and all future years, and the dollar impact of a vintage year method versus applying the rate to an entire account balance will increase as years accumulate. The effect should be a decrease in depreciation expense in the first several years after adoption and this reduction could be significant. This will impact support revenue (NECA and USF) in those years. We recommend consulting with your cost consultant before changing your method.

While using a vintage year method will complicate the monthly depreciation calculations, it should alleviate the situation described in the first paragraph. It may be worth purchasing depreciation software to accomplish the vintage year calculations. Software that interfaces with the g/l may not be able to perform calculations in this manner. The vintage year method can also be used for affiliates of telcos. Using a vintage year method would not change the accounting for retirements (no gain or loss recognized).

Having accounts that are fully depreciated for many years prior to retirement is an indication that the approved depreciation rate is too low. In conjunction with adopting a vintage year method, companies may want to consider filing for lower rates. If the account balance is large, a lower rate alone may not solve the problem of fully depreciating additions in a single month or a few months.

A company would not be required to adopt a vintage year method for all accounts. They can choose the accounts that are creating the distortion to depreciation expense. The result may be that you use three different methods; applying group rates to individual items (common for vehicles and work equipment), applying group rates to vintage years, and applying group rates to entire account balances.

According to SFAS No. 154, changing to a vintage year method is considered a change in estimates and the effect would be recorded in the current and future periods. It is not presented as a cumulative effect adjustment. The nature and reason for the change and the effect on net income in the year of change must be disclosed.

We will be glad to discuss this with you in greater detail if you are interested. We have an Excel model that was used to calculate the impact that a vintage year method would have using some hypothetical assumptions. If you would like us to e-mail you the model to plug in your own assumptions, please let us know. If you would like for us to perform a calculation for you, we will be glad to do that as well.

Sincerely,

CURTIS BLAKELY & CO., P.C.

Blake Lackey

Blake Lackey, CPA

BL/na
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CRITERIA

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

Finding	Criteria	Description
#1	47 C.F.R. § 54.903(a)(4) (2017)	"Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories."
#2	47 C.F.R. § 32.2000(g)(2) (2017)	"*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."

Finding	Criteria	Description
#2	47 C.F.R. § 32.2000(g)(1)(i) (2017)	"Computation of depreciation rates. Unless otherwise provided by the Commission, either through prior approval or upon prescription by the Commission, depreciation percentage rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property."
#2	47 C.F.R. § 32.3100 (2017)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#2	47 C.F.R. § 32.6560 (2017)	Depreciation and amortization expenses. "Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565."

CONCLUSION

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

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	($3,368,378)
CAF BLS	($1,242,125)
CAF ICC	$0
Total Impact	($4,610,503)

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

** This concludes the audit report.**

Attachment B

HC2022LR009

Available For Public Use

Duo County Telephone Coop Corp., Inc.

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

USAC Audit No. HC2022LR009

Prepared For:

Universal Service Administrative Company

November 21, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

November 21, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Duo County Telephone Coop Corp., Inc. (Beneficiary), study area code **260401** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 10, 2022, to November 21, 2022.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
November 21, 2022

AUDIT RESULTS AND RECOVERY ACTION

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

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 64.901(b)(4) Inaccurate Cost Study Adjustments – Assets and Expenses – The Beneficiary did not accurately allocate assets and remove nonregulated assets from its High Cost Program filings.	$43,654	$26,314	$0	$69,968

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SAC 260401 and will seek recovery from the Beneficiary 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 BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$43,654	$26,314	-	$69,968	N/A
Total	**$43,564**	**$26,314**	**-**	**$69,968**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 10,000 subscribers in South Central Kentucky. The Beneficiary has a wholly owned subsidiary named Cumberland Cellular, and is a minority owner in Bluegrass Network, LLC. The Beneficiary and its affiliated entities provide other services including video, broadband, customer premise equipment sales and lease, wiring maintenance, voicemail, SIP Trunk, and Internet DSL.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

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

SCOPE

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$6,299,466
HCL	2018-2019	2020	$2,344,500
CAF ICC	2017-2019	2020	$1,196,598
		Total	**$9,840,564**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Fixed Assets

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

D. Operating Expenses

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

E. Revenues

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

F. Affiliate Transactions

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

G. Cost Allocation

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 64.901(b)(4) – Inaccurate Cost Study Adjustments – Assets and Expenses

CONDITION

CLA obtained documentation including the Beneficiary's listing of cost study adjustments, as well as the Beneficiary's general ledger, CPR, outside plant study, and other supporting documentation to determine if the Beneficiary accurately calculated adjustments to its cost study in accordance with FCC Rules.

Per 47 C.F.R. § 64.901(b)(4), outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[1] One out of 17 sample adjustments was booked to remove non-regulated equipment and fiber and associated expenses from the cost study. To validate the adjustment, CLA utilized the testing performed over the Cable and Wire Facilities (CWF) categorization allocation, as the non-regulated percentage derived from the categorization is utilized to calculate the adjustment. During our testing of CWF Category 1 assets, we noted that the beneficiary was allocating all the usage category noted as dark fiber to Category 1 as the Beneficiary intended to use the dark fiber in fiber to the home projects to meet FCC broadband obligations and future broadband needs. Upon further discussion, it was determined the usage category noted as dark fiber was actually a bucket of different fiber uses. Outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment. Thus, the spare fibers should have been allocated upon the usage of the investment instead of directly assigned to CWF Category 1.

CLA obtained the analysis to further break out the dark fiber in categories that evidence fibers in use versus spares. Utilizing the breakdown, CLA re-categorized fiber and identified variances between the re-categorization to what was reported for High Cost purposes. The recalculation has been summarized in the tables below:

Table 1-1

Acct 2410 By Category	Beneficiary's Plant Cost Study Adjustment #3 (A)	CLA Recalculated CWF Category Allocation (B)	Variance (B-A)
Category 1	$49,566,293	$49,075,412	($490,881)
Category 2.1	$8,737	$21,245	$12,508
Category 2.3	$15,395,541	$15,243,071	($152,470)
Category 2.4	$1,852,387	$2,063,657	$211,270
Category 3	$29,110	$68,560	$39,450
Total			($380,123)

[1] *See* 47 C.F.R. § 64.901(b)(4) (2018).

Table 1-2

Account	As reported in the Part 64 Cost Study (A)	CLA Audited Balances (B)	Difference (B-A)
Cable & Wire Facilities (C&WF) (Account 2410)	$66,852,068	$66,471,945	$(380,123)
Accumulated Depreciation – Cable & Wire Facilities (Account 3100 - 2410)	$38,346,327	$38,182,556	$(163,771)
Cable & Wire Facilities Expense (Account 6410)	$1,052,159	$1,030,734	$(21,425)
Depreciation Expense – Cable & Wire Facilities (Account 6560 - 2410)	$3,723,258	$3,716,587	$(6,671)

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

CAUSE

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

EFFECT

CLA calculated the monetary effect by subtracting cost improperly allocated to CWF Category 1 ($490,881); adding and subtracting the cost to the proper Category 2 ($12,508), ($152,470), and ($211,270); and adding to Category 3 ($39,450); which resulted in removing the additional non-regulated costs ($380,123) determined in Table 1-1 above. The monetary impact of this finding relative to disbursements made from the High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$43,654
HCL	$26,314
CAF ICC	$0
Total	**$69,968**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. The Beneficiary must maintain asset categorization schedules that includes documenting assets by the proper category and to demonstrate compliance with the rules. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary will update and maintain documentation for asset categorization schedules, submitted for High Cost program purposes, in accordance with 47 C.F.R. § 64.901(b)(4).

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

BENEFICIARY RESPONSE

"The Beneficiary acknowledges that spare fiber was initially assigned to Category 1 in the cable and wire facilities analysis, however, a portion of Category 1 is then allocated to Category 2.2 for data only loop and Category 2.4 for wideband loop, and therefore spares are not directly allocated to only Category 1. The beneficiary's spare fiber is reserved and intended for current and future broadband (including Fiber to the Home) customers so that the company can meet broadband buildout obligations and can reasonably expect to be able to serve the rapidly growing broadband needs of its customers, present and future. In addition, the beneficiary continues to convert customers to broadband only at a rapid pace, which reduces the need for additional capacity for voice services such as Toll and EAS. In the last 5 years, the Beneficiary's voice customers declined almost 40%, and today 60% of their customer base subscribes to broadband only service. Like voice services, customers using traditional video services continue to decline as customers increase broadband speeds and use over-the-top options for video instead of traditional video. This continued decline in traditional video is the reason that the beneficiary is discontinuing video service by the end 2024. Therefore, the Beneficiary does not agree with the assignment of spare fiber to voice services and video services when these services are declining.

The beneficiary's network is designed to support both growth in broadband customers and to meet FCC broadband requirements. Most of the cost of fiber cable is found in the cost of installation, as opposed to the material cost of the actual fiber. Therefore, it is both prudent and economical to install additional fibers for future use and growth at the time of the initial installation, as opposed to incrementally constructing new fiber capacity on an ongoing basis in a particular location.

FCC rule 36.153(a)(1)(i)(A) states:

(i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows:

(A) By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. The corresponding percentages of use, or reservation, are applied to the cost of the section of cable, i.e., sheath meters times unit cost per meter, to obtain the cost assignable to each category.

As shown above, the FCC does not require allocations be conducted solely on fibers in use and does discuss the concept of fibers reserved by the beneficiary. The concept of reserving fibers for a particular category does not appear to conflict with Part 64.901(a)(2) which includes: "Costs shall be directly assigned to either regulated or nonregulated activities whenever possible."

In addition, NECA advises its member companies in Cost Guideline 4.23 that FCC rules acknowledge that certain CWF investment can be reserved and categorized according to assignment records, which supports the assignment of fiber based on intended use. The allocation performed by CLA does not reflect the intended use of the fiber. Therefore, the

Beneficiary does not agree that all spare fiber should be allocated based on fibers in use since usage is in some instances capped on a per fiber basis or is decreasing as discussed above."

Conclusion:

For cost study and USF purposes, carriers are required to allocate spare plant between the regulated and non-regulated operations whenever the associated in-use plant is used for both purposes. Carriers should use a reasonable and defensible allocation methodology.

The regulated spare portion of any facility, including fiber, is generally categorized in the same manner as the in-use portion of the same section of cable, If the spare facility is part of an existing "in use" categorization (or directly assigned if the entire facility is assignable to one category). To the extent that the facilities have been separately identified and reserved for a specific use and categorized based on the intended use.

In developing this Audit Finding, CLA appears to be assuming that ALL spare fiber be assigned based on in use fiber, where both the FCC rules themselves and the NECA Guidelines discuss "general" and typical assignments, subject to change based on intended use parameters.

Based on the information provided above, the beneficiary respectfully disagrees with this finding."

CLA RESPONSE

Outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[2] As such, the "Spare" cable and wire facilities should have been allocated based on usage within each section analysis of the cable and wire study as part of the Part 64 non-regulated allocation prior to the Part 36 separations the Beneficiary is referring to in is quotation of 47 C.F.R. § 36.153(a)(1)(i)(A) in their response to this finding.

The Beneficiary states in its' response, "The Beneficiary acknowledges that spare fiber was initially assigned to Category 1 in the cable and wire facilities analysis, however, a portion of Category 1 is then allocated to Category 2.2 for data only loop and Category 2.4 for wideband loop, and therefore spares are not directly allocated to only Category 1." The Beneficiary does not however state that the "Spare" fiber is allocated to the in-use non-regulated categories identified in their cable and wire study as required by 47 C.F.R. § 64.901(b). As such, it is verified that the Beneficiary did not properly allocate spares to "all" in use categories as required prior to the Part 36 separations. Therefore, 47 C.F.R. § 36.153(a)(1)(i)(A) does not apply in this case. CLA's position on this finding remains unchanged.

[2] See 47 C.F.R. § 64.901(b)(4) (2018).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 64.901 (2018)	(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 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.

Attachment C

HC2022LR031

Available For Public Use

Available for Public Use

T-Mobile Puerto Rico, LLC [Deutsche Telekom AG (Suncom Wireless)]

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

USAC Audit No. HC2022LR031

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Administrative Co.

EXECUTIVE SUMMARY

July 28, 2023

Ms. Tami Shwonek
T-Mobile Puerto Rico, LLC [Deutsche Telekom AG (Suncom Wireless)]
12920 SE 38th Street
Bellevue, WA 98006

Dear Ms. Shwonek:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of T-Mobile Puerto Rico, LLC [Deutsche Telekom AG (Suncom Wireless)] (Beneficiary), study area code (SAC) 639003, disbursements for **Stage 1 of the Bringing Puerto Rico Together Fund or "Uniendo a Puerto Rico Fund" (UPR)** using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in Federal Communications Commission (FCC) Order and Notice of Proposed Rulemaking 18-57, FCC Public Notice DA 18-825, FCC 17-129, FCC 16-173, 47 CFR § 54.707, as well as other program requirements (collectively, FCC Rules), as applicable. Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination did not disclose any areas of non-compliance with FCC Rules that were in effect during the audit period. However, our examination disclosed one other matter (Other Matter) discussed in the Audit Results and Recovery Action section. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary's and USAC Management's attention.

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

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

Sincerely,

Jeanette Santana Gonzalez

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
	UPR Support	
Other Matter: 47 C.F.R. § 54.320 (b) – Inadequate Documentation for USF Support Use / Retention of Documentation – Assets and Expenses The Beneficiary did not provide a comprehensive list of total recovery expenses; better recordkeeping to segregate program-specific funds received is recommended.	$4,441,131	$0
Total	**$4,441,131**	**$0**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 639003, 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.

	PRVI (A)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Other Matter	$4,441,131	$0	N/A
Mechanism Total	**$4,441,131**	**$0**	**N/A**

As there is no monetary effect for this Other Matter, the total recommended recovery is zero.

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
Stage 1 of the Bringing Puerto Rico Together Fund or "Uniendo a Puerto Rico Fund" ("UPR")	Sept. 10, 2017 – June 30, 2019	July 2018	$4,441,131
		Total	**$4,441,131**

BACKGROUND

The Beneficiary is a local exchange carrier (LEC) certified by the Telecommunications Regulatory Board of Puerto Rico (TRB), *n/k/a* the Telecommunications Bureau of Puerto Rico ("Bureau"), as an eligible telecommunications carrier (ETC). ***T-Mobile's*** parent organizations evolved from several mergers, acquisitions, and name changes dating back to 1994, when the parent company, ***T-Mobile US, Inc.***, started out as ***Voicestream Wireless PCS***. In 2001, ***Deutsche Telekom AG*** acquired ***Voicestream***, which was renamed ***T-Mobile USA, Inc.***, which merged with ***MetroPCS Communication*** and ultimately assumed the name ***T-Mobile US, Inc***.

PROCEDURES

AAD performed the following procedures:

A. General Procedures and Beneficiary Eligibility

AAD obtained a copy of the relevant ETC designation order from the local state commission and examined the document to determine when the Beneficiary was designated as an ETC in the study area to qualify for receiving High Cost Program support. To determine the Beneficiary's compliance with FCC and High Cost program rules for receiving funds under the UPR program, AAD obtained an understanding of the Beneficiary's processes and examined the hurricane-related costs and efforts to restore its network operations to levels existing pre-hurricane and any efforts to "harden" or strengthen its networks to withstand future hurricanes.

B. Expenditures Eligibility

AAD examined the general ledger details to determine whether the ETC used Stage 1 support only for expenditures incurred during the program time period (from the date that the affected areas were declared a disaster by the Federal Emergency Management Agency following Hurricanes Irma and Maria through June 30, 2019). In addition, AAD selected expense transactions and examined invoices to support the existence, accuracy and timing of the incurred expenses.

C. Service Restoration
AAD obtained and examined documentation demonstrating the upstream and downstream speeds, latency, coverage area and any other service qualities pre-hurricane and post-hurricane. AAD requested and reviewed information regarding whether the Beneficiary offered Backhaul support to all interested parties on non-discriminatory terms for a period of one year following the first receipt of funds.

D. Other Sources of Funding/Reimbursement
AAD confirmed the support that the Beneficiary received as a participant of the **UPR fund** through the USAC Open Data Tool. We examined the Beneficiary's financial statements and other documentation and determined that the Beneficiary used the award as reimbursement to itself.

OTHER MATTER

Other Matter: 47 C.F.R § 54.320 (b) – Inadequate Documentation for USF Support Use / Retention of Documentation - Assets and Expenses

CONDITION

AAD requested a detailed electronic listing of assets (including capital work in progress and expenses) used to restore and improve coverage and service quality of communications networks to levels existing, at a minimum, prior to the 2017 hurricanes Irma and Maria.

Beneficiary provided AAD a manually created Excel file with expenditures totaling $30.1M paid to one vendor. The Beneficiary did not provide a comprehensive list of total recovery expenses, therefore, AAD could not ascertain what percentage of the total restoration expenditure efforts this tested sample represented. The details provided were in excess of the USF Funding amount, however. Additionally, the Beneficiary did not provide AAD with the requested list of all funding sources or a reconciliation of assets for AAD to objectively determine how PRVI Stage 1 funds or insurance proceeds were used. Instead, AAD relied upon Beneficiary responses.

AAD requested a sample of hurricane-related expenditures from the parent company's trial balance; however, AAD received the manually prepared Excel file (referenced above that totaled $30.1M) that did not tie to the trial balance. These documents reflected expenditures paid for before the Beneficiary received the PRVI funds and accounted for more than the total PRVI support received, which suggests the funds were used for reimbursement purposes.

AAD received documentation to support $7.2M of the total value of expenses, representing 162.9% of the total USF PRVI funding received by the Beneficiary and traced them to invoices with no exceptions. AAD also noted the following discrepancies which provides limited confidence in the completeness and accuracy of the Excel file:

- A total listing of recovery expenses could not be provided, or the value determined by AAD.
- A segregation of expenditures by USF Funding versus other loans, grants, etc. could not be provided.

	Amount	**% of USF Funding**
Total USF Funding	$4,441,131	100.0%
Expenditure List Provided (Excel)	$30,107,044	677.9%
Expenditures Sampled[1] for Testing (3 expenses)	$7,205,282	162.2%

FCC Rules require carriers to retain all records required to demonstrate to auditors that the support received was consistent with the Universal Service High Cost program rules for at least ten years, and that this documentation be made available upon request.[2] This requirement is reiterated in FCC 18-57 specifically for this Fund.[3] Through testing of the Beneficiary's compliance with other High Cost PRVI Stage 1 program requirements, AAD documented that service was restored to pre-hurricane levels, at a minimum, and the PRVI funds appear to have been used for the intended purposes. However, the Beneficiary did not provide details of the total value of restoration services that AAD requested and improvements to the recordkeeping to segregate program-specific funds received are recommended.[4]

CAUSE

The Beneficiary did not have adequate processes and procedures in place, including Disaster Recovery and/or Business Continuity Planning, to ensure that appropriate records were segregated and retained to support the asset and expense amounts for disaster related circumstances. The Beneficiary stated it "is otherwise not aware of any applicable program or other rules that required it to record (PRVI Stage 1) expenditures in a specific manner." [5]

EFFECT

There is no monetary effect for this Other Matter. AAD obtained comfort from the sample tested that the Beneficiary appears to have used PRVI Stage 1 funds to reimburse itself for eligible expenses incurred during the proper period; however, better recordkeeping to segregate program-specific funds received is recommended.

RECOMMENDATION

The Beneficiary should implement policies and procedures to ensure that it retains adequate records demonstrating its compliance with High Cost program requirements and use of USF support. Document retention should be built into any Disaster Recovery / Business Continuity Planning as standard

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[1] Samples were selected judgmentally based on dollar value and expense description to cover total amount of USF funding.

[2] *See* 47 CFR 54.320(b).

[3] *The Uniendo a Puerto Rico and the Connect USVI Fund et al*, Order and Notice of Proposed Rulemaking, FCC 18-57, para. 21 (May 29, 2018).

[4] *The Uniendo a Puerto Rico and the Connect USVI Fund et al*, Order and Notice of Proposed Rulemaking, FCC 18-57, para. 21 (May 29, 2018).

[5] Beneficiary response to the Background Questionnaire (BQ #1), June 8, 2022.

operating procedures and as preparation for future participation in USF programs, notably PRVI Stage 2[6] funding.

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 audit report recommends that "Document retention should be built into any Disaster Recovery /Business Continuity Planning as standard operating procedures and as preparation for future participation in USF programs, notably PRVI Stage 2 funding," citing to 47 C.F.R. § 54.1515(a). T-Mobile agrees that it should have policies designed to assure that vital and necessary records are not lost as a result of a disaster. The company already has such plans in place through the company's record retention policies and there is no indication that any necessary records were or will be lost as a result of a disaster. Record retention policies are not part of the enumerated list of objectives that the FCC directed for inclusion in a Uniendo Stage II Disaster Preparation and Response Plan (DPRP), and T-Mobile's DPRP has already been approved by the FCC's Wireline Competition Bureau. T-Mobile respectfully submits that its record retention policies should not need to be incorporated into a revised DPRP and proposed to the Bureau.

CRITERIA

47 C.F.R. § 54.320(b) (2017)

Compliance and recordkeeping for the high-cost program. (b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the Universal Service High Cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.

FCC 18-57, para. 21

21."… Carriers must retain for at least ten years the records required to demonstrate that their use of this support complied with this Order and other Commission rules."

This concludes the report.

[6] 47 C.F.R. § 54.1515(a) (2020) Disaster preparation and response measures. (a) Each recipient of fixed and mobile support from Stage 2 of the Uniendo a Puerto Rico Fund and the Connect USVI Fund shall create, maintain, and submit to the Wireline Competition Bureau for its review and approval a detailed Disaster Preparation and Response Plan document that describes and commits to the methods and procedures that it will use, during the period in which it receives Stage 2 support, to prepare for and respond to disasters in the Territories, including detailed descriptions of methods and processes to strengthen infrastructure; to ensure network diversity; to ensure backup power; to monitor its network; and to prepare for emergencies.

Attachment D

HC2023LR029

Available For Public Use

Hill Country Telephone Cooperative

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

USAC Audit No. HC2023LR029

Prepared For:

Universal Service Administrative Company

May 11, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

May 11, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Hill Country Telephone Cooperative (Beneficiary or HCTC), study area code **442086** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2021. CLA conducted the audit field work from January 26, 2023, to May 11, 2023.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
May 11, 2023

AUDIT RESULTS AND RECOVERY ACTION

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

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
Finding #1: 47 C.F.R. § 51.917(d)(1)(iii)-(iv) (2019) – Inaccurate Reporting of Intrastate Terminating Switched Access Services The Beneficiary did not accurately report Intrastate Terminating Switched Access Revenues.	$0	$0	($9,360)	($9,360)	$0[1]
Finding #2: 47 C.F.R. § 51.917(d)(1)(iii)-(iv) (2019) – Inaccurate True-Up Adjustment: Exogenous Cost The Beneficiary did not accurately calculate Exogenous Costs for High Cost program purposes.	$0	$0	$1,601	$1,601	$1,601
Total Monetary Effect	$0	$0	($7,759)	($7,759)	$1,601

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 442086, 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	$0	$0	($9,360)	($9,360)	N/A
Finding #2	$0	$0	$1,601	$1,601	N/A
Total	**$0**	**$0**	**($7,759)**	**($7,759)**	**N/A**

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

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

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunication services in 15 exchanges located in 14 counties spread across nearly 3,000 square miles in rural Hill Country, Texas. Hill Country Telephone Cooperative is the holding company which provides other services such as internet services, long distance and competitive local exchange services, fiber capacity services, and computer network, maintenance and support.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF ICC	2018-2020	2021	$794,088[2]

PROCEDURES
We performed the following procedures:

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

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

C. 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.

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

DETAILED AUDIT FINDING

Finding #1: 47 C.F.R. § 51.917(d)(1)(iii)-(iv) – Inaccurate Reporting of Intrastate Terminating Switched Access Services

<u>CONDITION</u>

CLA obtained and examined the Beneficiary's billing reports, general ledger and the National Exchange Carrier Association (NECA) CAF ICC True-Up documentation to determine whether the Beneficiary accurately reported actual payments earned for providing Intrastate Terminating Switched Access Services (Intrastate Revenue).

FCC rules require 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 Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014 and an amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.[3] From our review, we identified variances between NECA's CAF ICC True-Up documentation to billing reports for Intrastate Terminating Switched Access Services for Program Year July 2018-June 2019. The variance identified for the Program Year was due to the duplication of revenue reporting of the Beneficiary's direct trunk revenue. A summary of the variance is identified below:

Revenue	Program Year July 2018 – June 2019
Intrastate Terminating Switched Access Services Revenue Reported	$97,310
Billing Report/GL for Intrastate Revenue	$78,593
Intrastate Revenue Variance Over/(Under) Reported	**$18,717**

Additionally, the Beneficiary was unable to provide supporting documentation such as billing reports for the month of August 2018 within Program Year July 2018-June 2019 and for the month of September 2019 within Program Year July 2019-June 2020.[4]

<u>CAUSE</u>

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate revenues earned for Intrastate Terminating Switched Access Services for High Cost Program purposes. The Beneficiary in quarter 1 of 2021 began to use different reports (ABRNS versus ABRTE) to reconcile the monthly data reported in NECA's EC1050. In doing so, Direct Trunk Revenue was already included in the reports but was also being manually added to the total Intrastate SWA Terminating Revenue. With regards to the unlocated Carrier Access Billing System (CABS) bills, the Beneficiary was unable to locate two months that occurred during the employment of a currently retired employee.[5]

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[3] *See* 47 C.F.R. § 51.917(d)(1)(iii)-(iv) (2019).

[4] Although no supporting documentation was provided for the month of August 2018 and September 2019, CLA did not apply a monetary effect as it would have resulted in an erroneous underpayment. To complete the reconciliation, CLA calculated and average monthly revenue to account for the missing billings. If the missing billing had been taken into consideration for purposes of calculating monetary effect, the under-reported amount would have been $24,521 for Program Year 2018 -2019 and $5,023 for Program Year 2019-2020.

[5] Beneficiary's response to the Summary of Exceptions, received May 25, 2023.

EFFECT
CLA calculated the monetary effect by subtracting the actual amount of $78,593 identified on the Beneficiary billing reports and general ledger from the reported amount on the Beneficiary NECA CAF ICC True-Up documentation to arrive to the monetary impact. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2021, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	-
HCL	-
CAF ICC	($9,360)[6]
Total	**($9,360)**[7]

RECOMMENDATION
We recommend that the Beneficiary implement an adequate system to report accurate revenues for High Cost Program purposes as well as perform timely review of the system to ensure the system is functioning properly.

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

BENEFICIARY RESPONSE

In Q1 2021 HCTC began using the ABRNS versus ABRTE to reconcile the monthly data reported in the EC1050. In doing so my team discovered the Direct Trunk revenue was already included in the NISC reports and being manually added to the total intrastate SWA terminating revenue, thereby over reporting. This occurred during the periods under audit. We provided a schedule of over-reported revenues to our consultants who made the appropriate input adjustments for periods within the reporting window at that time. With regards to the unlocated CABS bills, HCTC was unable to locate two months that occurred during the employment of a currently retired employee. To our knowledge the reports during this time had been properly scanned and/or stored.

To mitigate future recurring issues, HCTC engaged new consultants in Q3 2021 and created a secondary internal reconciliation of data. Additionally, the reports are sent to multiple in-house recipients through a distribution list and maintained by NISC data warehouse who now processes our CABS bills.

[6] The monetary effect listed only represents disbursements during calendar year 2021. CLA notes at least ($9,360) in improper disbursements were made during prior and subsequent periods. Additional amounts may have been understated in prior periods due to the same error.

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

Finding #2: 47 C.F.R. § 51.917(d)(1)(iii)-(iv) – Inaccurate Reporting of Exogenous Costs

CONDITION

CLA obtained and examined the Beneficiary's CAF ICC True-up documentation for both Program Year July 2018-June 2019 and Program Year July 2019-June 2020 to determine whether the Beneficiary reported accurate Exogenous Costs amounts for High Cost program purposes. FCC rules require 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 an amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.[8] For the calculation of Exogenous Costs, these costs reported for CAF ICC purposes include Telecommunication Relay Service (TRS), FCC Regulatory, and North American Number Plan Association (NANPA) fees. For beneficiaries whose subscriber line charge rates were at the maximum levels permitted by FCC Rules, the 2012 Annual Access Tariff Filings Order DA 12-575 allowed beneficiaries to include that portion of increases in mandatory TRS, FCC Regulatory (REG), and NANPA fees associated with a rate that is capped in their Eligible Recovery for the 2012 annual access charge tariff filing.[9]

Upon examination of the supporting documentation for the reported exogenous costs, we identified variances between NECA's CAF ICC True-Up documentation to CLA's recalculation of such costs for Program Year July 2018-June 2019 and Program Year July 2019-June 2020. The variances identified were due to the Beneficiary not utilizing the revenues reported on the company's Form 499-A and the TRS and REG fees for the applicable years as part of their calculation of the costs. A summary of the variances is identified below:

Cost	Program Year July 2018 – June 2019
Exogenous Cost Reported	$2,262
Exogenous Cost Recalculated	$585
Exogenous Variance Over/(Under)	**$1,677**

Cost	Program Year July 2019 – June 2020
Exogenous Cost Reported	$1,525
Exogenous Cost Recalculated	$0
Exogenous Variance Over/(Under)	**$1,525**

Because the Beneficiary did not accurately calculate its exogenous cost, CLA concludes that the Beneficiary did not report an accurate exogenous cost amount. The Beneficiary must report accurate exogenous costs for High Cost program purposes.

CAUSE

The Beneficiary did not have adequate system in place for collecting, reporting, or monitoring data to report accurate Exogenous Costs for High Cost Program purposes. The cost consultant of the

[8] *See* 47 C.F.R. § 51.917(d)(1)(iii)-(iv) (2019).

[9] *See Material to be Filed in Support of 2012 Annual Access Tariff Filings*, WCB/Pricing File No. 12-08, DA-12-575, 27 FCC Rcd 3960 (5).

Beneficiary stated that when preparing the CAF ICC Exogenous cost data, FCC Regulatory and TRS fees were identified using the amounts reported in the cost study.[10]

EFFECT

CLA calculated the monetary effect by subtracting the recalculated exogenous cost of $585 (Program Year July 2018 – June 2019) and $0 (Program Year July 2019 – June 2020) from the reported amounts $2,262 and $1,525 on the Beneficiary NECA CAF ICC True-Up documentation to arrive to the monetary impact. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2021, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	-
HCL	-
CAF ICC	$1,601
Total	**$1,601**[11]

RECOMMENDATION

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, procedures, and processes that describe how to properly calculate Exogenous Costs, by utilizing appropriate factors, submitted in its CAF ICC filing for High Cost program purposes.

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

BENEFICIARY RESPONSE

HCTC's consultants during this time frame, prepared the CAF ICC Exogenous cost data using FCC Regulatory and TRS fee amounts reported in the cost study[12].

HCTC will prevent this from occurring in the future by calculating exogenous costs with relevant FCC Form 499-A revenues and cost separation study Part 69 allocation factors.

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[10] Beneficiary's response to the Summary of Exceptions, received May 25, 2023.

[11] The monetary effect listed only represents disbursements during calendar year 2021. CLA notes at least $1,601 in improper disbursements were made during prior and subsequent periods. Additional amounts may have been understated in prior periods due to the same error.

[12] CLA clarification: The carrier used amounts reported in their annual Cost Study to calculate exogenous cost instead of utilizing FCC Form 499-A. HCTC's consultants calculated exogenous cost starting with Part 36 Cost Study amount for Telcom Relay Service (acct 6620) and Ad Valorem Taxes. Then they applied the applicable Part 69 Switched Access Factors for the Part 36 amounts originally used (Telcom Relay Service (acct 6620) and Ad Valorem Taxes).

CRITERIA

Finding	Criteria	Description
#1 and #2	47 C.F.R. § 51.917(d)(1)(iii) - (iv) (2019)	(d) Eligible Recovery for Rate-of-Return Carriers. (1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section. (iii) Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; (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; and (D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012, multiplied by negative one. (iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year.

Attachment E

HC2019LR002

Virgin Islands Telephone Corporation (VITELCO)

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

USAC Audit No. HC2019LR002

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EXECUTIVE SUMMARY

August 21, 2023

Mr. Paul Kouroupas
Virgin Islands Telephone Corporation (VITELCO or VIYA)
Innovative Business Center
4611 Tutu Park – Suite 200
PO Box 6100
St. Thomas, VI 00804

Dear Mr. Kouroupas:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Virgin Islands Telephone Corporation (VITELCO or VIYA) (Beneficiary), study area code 643300, disbursements for **Stage 1 of the Connect USVI Fund** using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in Federal Communications Commission (FCC) Order and Notice of Proposed Rulemaking 18-57, FCC Public Notice DA 18-825, FCC 17-129, FCC 16-173, 47 CFR § 54.707, as well as other program requirements (collectively, FCC Rules), as applicable. Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination disclosed one (1) detailed audit finding, as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a "finding" is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery
47 CFR § 54.320 (b) – Inadequate Documentation for USF Support Use / Retention of Documentation – Assets and Expenses The Beneficiary did not have adequate processes and procedures in place, including Disaster Recovery and/or Business Continuity Planning, to ensure that appropriate records were segregated and retained to support the asset and expense amounts for disaster-related circumstances, and did not provide documentation to support portion of the expenditures related to Connect USVI funds.	$655,935	$0
Total	**$655,935**	**$0**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 643300, 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.

	USVI (A)	USAC Recovery Action (A)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$0	$0	N/A
Mechanism Total	**$0**	**$0**	**N/A**

As there is no monetary effect for this finding, the total recommended recovery is zero.

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
Stage 1 of the Connect USVI Fund	Sept. 7, 2017 – June 30, 2019	July 2018	$6,865,850
		Total	**$6,865,850**

BACKGROUND
The Beneficiary is a local exchange carrier (LEC) certified by the Virgin Islands Public Service Commission (VIPSC) as an eligible telecommunications carrier (ETC). The Beneficiary provides local fixed wireline telephone service, operating on the island of St. Thomas in the US Virgin Islands. VIYA is an affiliate of several corporations, including ***Coqui.net Corporation;*** and these affiliated companies are subsidiaries of ***DTR Holdings, LLC*** (which is a wholly owned subsidiary of ***Caribbean Asset Holdings*** (CAH) – which ***ATN International*** acquired in July 2016).

PROCEDURES
AAD performed the following procedures:

A. General Procedures and Beneficiary Eligibility

AAD obtained a copy of the relevant ETC designation order from the local state commission and examined the document to determine when the Beneficiary was designated as an ETC in the study area to qualify for receiving High Cost Program support. To determine the Beneficiary's compliance with FCC and High Cost program rules for receiving funds under the UPR program, AAD obtained an understanding of the Beneficiary's processes and examined the hurricane-related costs and efforts to restore its network operations to levels existing pre-hurricane and any efforts to "harden" or strengthen its networks to withstand future hurricanes.

B. Expenditures Eligibility

AAD examined the general ledger details to determine whether the ETC used Stage 1 support only for expenditures incurred during the program time period (from the date that the affected areas were declared a disaster by the Federal Emergency Management Agency following Hurricanes Irma and Maria through June 30, 2019). In addition, AAD selected expense transactions and examined invoices to support the existence, accuracy, and timing of the incurred expenses.

C. Service Restoration

AAD obtained and examined documentation demonstrating the upstream and downstream speeds, latency, coverage area, and any other service qualities pre-hurricane and post-hurricane. AAD requested and reviewed information regarding whether the Beneficiary offered Backhaul support to all interested parties on non-discriminatory terms for a period of one year following the first receipt of funds.

D. Other Sources of Funding/Reimbursement

AAD confirmed the support that the Beneficiary received as a participant of the **Connect USVI fund** through the USAC Open Data Tool. We examined the Beneficiary's financial statements and other documentation and determined that the Beneficiary used the award as reimbursement to itself.

DETAILED AUDIT FINDING

Finding: 47 C.F.R § 54.320(b) – Inadequate Documentation for USF Support Use/ Retention of Documentation - Assets and Expenses

CONDITION

AAD requested a detailed electronic listing of assets (including capital work in progress and expenses) used to restore and improve coverage and service quality of communications networks to levels existing, at a minimum, prior to the 2017 hurricanes Irma and Maria. Virgin Islands Telephone Corporation (Beneficiary) informed AAD that system records for the period Sept 2017 through Sept 2019 were unrecoverable, due to storm damage from the 2017 Hurricanes, and salvaged paper documents would be extremely difficult to obtain as they were shipped offsite to a U.S. mainland storage facility.[1] The Beneficiary manually created an Excel file representing a fraction of the total $60M value of restoration-related expenses the company reported to its state commission;[2] however, AAD noted several discrepancies that limited our ability to rely on the file's integrity. AAD could not specifically determine whether the $60M value of expenditures for assets used in restoring the Beneficiary's networks during the audit period was supported, in part, by the Universal Service Fund (USF) support provided through the Connect USVI Stage 1 ("PRVI Stage 1") program in which the Beneficiary participated; and it is apparent, based on the delays AAD experienced in receiving audit-requested documents, that the Beneficiary does not segregate USF documents and funding amounts as required by High Cost program rules.

AAD requested a sample of hurricane-related expenditures from the parent company's trial balance; however, AAD received the manually prepared Excel file (referenced above that totaled $7.3M) that did not tie to the trial balance or the 2019 Motion for Confidential Treatment report (in which the $60M expenditure outlay is detailed) the Beneficiary filed with the FCC and the Virgin Islands Public Service Commission. These documents reflected expenditures paid for before the Beneficiary received the Connect USVI funds and accounted for more than the total Connect USVI support received, which suggests the funds were used for reimbursement purposes.

[1] Beneficiary response to AAD's Audit Inquiries Record (AIR) (Requested Documentation #3, Background Questionnaire numbers 1, 31), Feb. 9, 2023.
[2] VIYA's Motion for Confidential Treatment, Appendix 1, Jul. 31, 2019.

AAD received documentation to support $6.2M of the total value of expenses from the Beneficiary Excel file ($7.3M) and traced them to invoices. AAD noted the following discrepancies which provide limited confidence in the completeness and accuracy of the Excel file:

- The $6.2M total value of expenses supported by invoices (57 of 64 expense items) left a remaining balance of the USF amount provided to the Beneficiary unsupported by proper documentation ($655,935).
- The total value of the expense listing and documents provided, inclusive of the quotes and duplicates, are both significantly less than the total restoration-related expenditures ($60M), and USF funds are not specifically segregated from the total expenses.
- Two (2) documents totaling $310,655 are quotes that are not supported by executed contracts or invoices but are included in the $7.3M Excel file total.

	Amount	**% of USF Funding**
Total USF Funding	$6,865,850	100.0%
Expenditure List Provided (Excel)	$7,367,593	107.3%
Expenditures with Invoices provided for Testing	$6,209,915	90.4%
Expenditures with Inadequate Support	$655,935	9.6%

FCC Rules require carriers to retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules for at least ten years, and that this documentation be made available upon request.[3] This requirement is reiterated in FCC 18-57 specifically for this Fund.[4] Through testing of the Beneficiary's compliance with other High Cost PRVI Stage 1 program requirements, AAD documented that service was restored to pre-hurricane levels, at a minimum, and PRVI funds appear to have been used for the intended purposes. However, the Beneficiary did not provide details of the entire $60M reported for full restoration services that AAD requested and did not provide documentation to support $655,935 of the expenditures related to Connect USVI funds; thus, AAD concludes the Beneficiary did not maintain documentation to fully support it used the Connect USVI funds only for intended purposes.[5]

CAUSE

The Beneficiary did not have adequate processes and procedures in place, including Disaster Recovery and/or Business Continuity Planning, to ensure that appropriate records were segregated and retained to support the asset and expense amounts for disaster-related circumstances. When AAD inquired as to the Beneficiary's process to segregate Connect USVI Stage 1 funds from normal operations, we did not receive an answer.[6]

EFFECT

The monetary effect and recommended recovery of this audit finding is $655,935.

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[3] *See* 47 CFR 54.320(b).

[4] *The Uniendo a Puerto Rico and the Connect USVI Fund et al*, Order and Notice of Proposed Rulemaking, FCC 18-57, para. 21 (May 29, 2018).

[5] *Id*.

[6] Beneficiary response to the Background Questionnaire (BQ #1), June 20, 2022.

RECOMMENDATION

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

The Beneficiary must implement policies and procedures to ensure that it retains adequate records demonstrating its compliance with High Cost program requirements and use of USF support. Document retention should be built into any Disaster Recovery / Business Continuity Planning as standard operating procedures and as preparation for future participation in USF programs, notably Connect USVI Stage 2[7] funding.

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

This submission is in response to the auditor's findings as provided to us on August 14, 2023. Beneficiary disagrees with the AAD's findings as they pertain to insufficient documentation.

AAD acknowledges that Beneficiary "informed AAD that system records for the period Sept 2017 through Sept 2019 were unrecoverable, due to storm damage from the 2017 Hurricanes, and salvaged paper documents would be extremely difficult to obtain as they were shipped offsite to a U.S. mainland storage facility," yet nonetheless faults Beneficiary for failing to maintain proper records as required by program rules and cites Beneficiary for inadequate documentation.

First, a slight correction, the files were stored in the U.S. Virgin Islands, not the U.S. mainland. Second, it bears reminding that the USVI suffered back-to-back Category 5 hurricanes that literally destroyed Beneficiary's network and facilities and left the USVI without reliable commercial power for as long as a full year. As damaging as the hurricane winds were to Company facilities, the rains were similarly damaging to the contents within those structures which were exposed to the elements. Rainwater flooded numerous Beneficiary facilities, damaging not only equipment, but important records. The water from the 2017 Hurricanes destroyed a substantial number of documents and many of those documents that survived the water were not salvageable due to the mold that subsequently formed.

Compounding the problem was the fact that there was no reliable electrical power on the island for months, forcing Beneficiary to manually record expenditures, often days or weeks after the fact. Because of the manual process, entries lacked consistency and sometimes relevant detail.

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[7] 47 C.F.R. § 54.1515(a) (2020) Disaster preparation and response measures. (a) Each recipient of fixed and mobile support from Stage 2 of the Uniendo a Puerto Rico Fund and the Connect USVI Fund shall create, maintain, and submit to the Wireline Competition Bureau for its review and approval a detailed Disaster Preparation and Response Plan document that describes and commits to the methods and procedures that it will use during the period in which it receives Stage 2 support, to prepare for and respond to disasters in the Territories, including detailed descriptions of methods and processes to strengthen infrastructure; to ensure network diversity; to ensure backup power; to monitor its network; and to prepare for emergencies.

Despite all this, Beneficiary did manage to provide AAD with sufficient documentation to support items AAD could not initially verify during fieldwork. Beneficiary has also adopted new systems and procedures to guard against similar problems in the future. For instance, all of Beneficiary's accounting systems are cloud-based and procedures are being implemented to separately track program funds.

AAD RESPONSE

The Beneficiary disputed the finding and provided additional documentation during the Beneficiary response process not made available to AAD during the course of the audit. AAD has reviewed the additional supporting invoice documentation provided, totaling $673,748, and has determined that the documents support the remaining expenditures related to the $655,935 of the Connect USVI funds. AAD is, therefore, reducing the monetary effect and recommended recovery amount to zero. However, AAD maintains the recommendation for better recordkeeping to segregate program-specific funds received. See adjustments below.

High Cost Support	Monetary Effect	Recommended Recovery
Stage 1 of the Connect USVI Fund	$0	$0

CRITERIA

47 C.F.R. § 54.320(b) (2017)

Compliance and recordkeeping for the high-cost program. (b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the Universal Service High Cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.

FCC 18-57, para. 21

21."… Carriers must retain for at least ten years the records required to demonstrate that their use of this support complied with this Order and other Commission rules."

This concludes the report.

Attachment F

HC2019LR003

Universal Service Administrative Co.

Available For Public Use

Liberty Cablevision of Puerto Rico, LLC n/k/a Liberty Communications of Puerto Rico, LLC

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

USAC Audit No. HC2019LR003

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Universal Service Administrative Co.

Available For Public Use

EXECUTIVE SUMMARY

August 23, 2023

Mr. Luis Mendez del Nido
Liberty Cablevision of Puerto Rico, LLC n/k/a Liberty Communications of Puerto Rico
279 Ponce de Leon Avenue
San Juan, PR 00918

Dear Mr. Mendez del Nido:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Liberty Cablevision of Puerto Rico, LLC n/k/a Liberty Communications of Puerto Rico (Beneficiary), study area code 639021, disbursements for Stage 1 of the Bringing Puerto Rico Together Fund or "Uniendo a Puerto Rico" Fund ("UPR") during the period September 2017 through June 2019, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism set forth in Federal Communications Commission (FCC) Order and Notice of Proposed Rulemaking 18-57, FCC Public Notice DA 18-825, FCC 17-129, FCC 16-173, 47 C.F.R. § 54.707, as well as other program requirements (collectively, FCC Rules), as applicable. Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination did not disclose any areas of non-compliance with FCC Rules that were in effect during the audit period. However, our examination disclosed one other matter (Other Matter) discussed in the Audit Results and Recovery Action section. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary's and USAC Management's attention.

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect UPR Support	Recommended Recovery
OTHER MATTER: 47 C.F.R. § 54.320(b) – Inadequate Documentation for USF Support Use / Retention of Documentation **Assets and Expenses** The Beneficiary did not provide a comprehensive list of total recovery expenses; better recordkeeping to segregate program-specific funds received is recommended.	$0	$0
Total	$0	**$0**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for the Beneficiary for SAC 639021, for 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.

	PRVI (A)	USAC Recovery Action (A)	Rationale for Difference (if any) from Auditor Recommended Recovery
Other Matter	$0	$0	N/A
Mechanism Total	**$0**	**$0**	**N/A**

As there is no monetary effect for this Other Matter, the total recommended recovery is zero.

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	Disbursement Audited
Stage 1 of the Bringing Puerto Rico Together Fund or "Uniendo a Puerto Rico" Fund ("UPR")	Sept 10, 2017 – June 30, 2019	July 2018	$11,091,660
Total			**$11,091,660**

BACKGROUND

The Beneficiary is a local exchange carrier (LEC) certified by the Telecommunications Regulatory Board of Puerto Rico ("TRB"), *n/k/a* the Telecommunications Bureau of Puerto Rico ("Bureau"), as an eligible telecommunications carrier (ETC). The Beneficiary operates in San Juan, Puerto Rico, and provides fixed telecommunications services to residential and business customers in the territory. LiLAC Communications, Inc. ("LiLAC") indirectly owns a 60 percent controlling interest in LCPR. Prior to October 17, 2018, the remaining 40 percent interest in LCPR was indirectly owned by Searchlight Capital Partners LP ("Searchlight"). As of October 17, 2018, LCPR is an indirect, wholly-owned subsidiary of Liberty Latin America, Ltd. (of which LiLAC is also a wholly-owned subsidiary), which acquired Searchlight's 40 percent indirect interest in LCPR.

PROCEDURES

AAD performed the following procedures:

A. General Procedures and Beneficiary Eligibility

AAD obtained a copy of the relevant ETC designation order from the local state commission and examined the document to determine when the Beneficiary was designated as an ETC in the study area to qualify for receiving High Cost Program support. To determine the Beneficiary's compliance with FCC and High Cost program rules for receiving funds under the UPR program, AAD obtained an understanding of the Beneficiary's processes and examined the hurricane-related costs and efforts to restore its network operations to levels existing pre-hurricane and any efforts to "harden" or strengthen its networks to withstand future hurricanes.

B. Expenditures Eligibility

AAD examined the general ledger details to determine whether the ETC used Stage 1 support only for expenditures incurred during the program time period (from the date that the affected areas were declared a disaster by the Federal Emergency Management Agency following Hurricanes Irma and Maria through June 30, 2019). In addition, AAD selected expense transactions and examined invoices to support the existence, accuracy, and timing of the incurred expenses.

C. Service Restoration

AAD obtained and examined documentation demonstrating the upstream and downstream speeds, latency, coverage area, and any other service qualities pre-hurricane and post-hurricane. AAD requested and reviewed information regarding whether the Beneficiary offered Backhaul support to all interested parties on non-discriminatory terms for a period of one year following the first receipt of funds.

D. Other Sources of Funding/Reimbursement

AAD confirmed the support that the Beneficiary received as a participant of the **UPR fund** through the USAC Open Data Tool. We examined the Beneficiary's financial statements and other documentation and determined the Beneficiary used the award as reimbursement to itself.

DETAILED OTHER MATTER

OTHER MATTER: 47 C.F.R. § 54.320 (b) – Inadequate Documentation for USF Support Use / Retention of Documentation – Assets and Expenses

CONDITION

AAD requested a detailed electronic listing of assets (including capital work in progress and expenses) used to restore and improve coverage and service quality of communications networks to levels existing, at a minimum, prior to the 2017 hurricanes Irma and Maria. Liberty Communications of Puerto Rico (Beneficiary) provided AAD a manually created Excel file, representing a portion of the recovery expenses (estimated at $294.9M), which included thirty (30) purchase orders totaling $31.6M to substantiate expenditures incurred, but accounted for more than the total Universal Service Fund (USF) support ($11.1M) the Beneficiary received through its participation in the Uniendo a Puerto Rico Stage 1 ("PRVI Stage 1") program. By relying on the Beneficiary's financial statements,[1] responses to our inquiries,[2] and the testing performed, AAD concluded that the more than $90M in insurance and loan proceeds and other reimbursements the Beneficiary received did not appear to pay for the $31.6M in restoration expenditures and that the USF support did not indirectly reimburse expenditures initially paid for by insurance.

AAD reviewed documentation for more than $13M of the $31.6M restoration expenditures reported by the Beneficiary, which represents 117.4% of the USF amount the Beneficiary received. We traced the sample to invoices with no exceptions. The documents reflected expenditures paid for before the Beneficiary received the PRVI funds, which suggests the Beneficiary used the funds to reimburse itself.

AAD noted that while the amounts provided to AAD as expenditures for restoration covers the amount of USF Funding, the listing did not encompass enough expenditures to cover USF funding plus the reported insurance and loan proceeds. As such, the detailed listing provides limited confidence in the completeness and accuracy of the Excel file, as a total listing of recovery expenses could not be provided.

	Amount	% of USF Funding
Total USF Funding	$11,091,660	100.0%
Expenditure List Provided (Excel)	$31,597,418	284.9%
Expenditures with Invoices Sampled for Testing	$13,021,215	117.4%

FCC Rules require carriers to retain all records required to demonstrate to auditors that the support received was consistent with the Universal Service High Cost program rules for at least ten years, and that this documentation be made available upon request.[3] This requirement is reiterated in FCC 18-57 specifically for

[1] Beneficiary's 2016 - 2018 consolidated financial statements, pages 13, 26, 32, 33.
[2] Beneficiary response to the Jan 27, 2023 Audit Inquiries Record (AIR)) responses (BQ #14, RD #10, line 13 on the spreadsheet), Jan 27, 2023.
[3] *See* 47 CFR 54.320(b).

this Fund.[4] Through testing of the Beneficiary's compliance with other High Cost PRVI Stage 1 program requirements, AAD documented that service was restored to pre-hurricane levels, at a minimum, and the PRVI funds appear to have been used for the intended purposes. However, the Beneficiary did not provide details of the total value of restoration services that AAD requested and improvements to the recordkeeping to segregate program-specific funds received are recommended.[5]

CAUSE

The Beneficiary did not have adequate processes and procedures in place, including Disaster Recovery and/or Business Continuity Planning, to ensure that appropriate records were segregated and retained to support the asset and expense amounts for disaster related circumstances. The Beneficiary stated it "is otherwise not aware of any applicable program or other rules that required it to record (PRVI Stage 1) expenditures in a specific manner." [6]

EFFECT

There is no monetary effect for this Other Matter. AAD obtained reasonable assurance from the areas tested that the Beneficiary appears to have used PRVI Stage 1 fund to reimburse itself for eligible expenses incurred during the proper period; however, better recordkeeping to segregate program-specific funds received is recommended.

RECOMMENDATION

The Beneficiary must implement policies and procedures to ensure that it retains adequate records demonstrating its compliance with High Cost program requirements and use of USF support. Document retention should be built into any Disaster Recovery / Business Continuity Planning as standard operating procedures and as preparation for future participation in USF programs, notably PRVI Stage 2[7] funding.

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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[4] *The Uniendo a Puerto Rico and the Connect USVI Fund et al*, Order and Notice of Proposed Rulemaking, FCC 18-57, para. 21 (May 29, 2018).
[5] *The Uniendo a Puerto Rico and the Connect USVI Fund et al*, Order and Notice of Proposed Rulemaking, FCC 18-57, para. 21 (May 29, 2018).
[6] Beneficiary response to the Background Questionnaire (BQ #1), May 20, 2022.
[7] 47 C.F.R. § 54.1515(a) (2020) Disaster preparation and response measures. (a) Each recipient of fixed and mobile support from Stage 2 of the Uniendo a Puerto Rico Fund and the Connect USVI Fund shall create, maintain, and submit to the Wireline Competition Bureau for its review and approval a detailed Disaster Preparation and Response Plan document that describes and commits to the methods and procedures that it will use, during the period in which it receives Stage 2 support, to prepare for and respond to disasters in the Territories, including detailed descriptions of methods and processes to strengthen infrastructure; to ensure network diversity; to ensure backup power; to monitor its network; and to prepare for emergencies.

BENEFICIARY RESPONSE

Liberty Communications of Puerto Rico (LCPR) acknowledges and agrees that as a recipient and beneficiary of high-cost support through the FCC's Uniendo a Puerto Rico program, it is required to retain all records required to demonstrate that the support received was consistent with the FCC's rules. While the records that LCPR did retain and provide to USAC were sufficient to demonstrate that the support received was consistent with the FCC's rules, the company will take under advisement USAC's additional recommendations posted on its website and in the audit report to better facilitate future reviews.

Recordkeeping compliance for Stage 1 funding posed challenges unlike most other FCC high-cost programs in that the program was created after costs were incurred, so it was not possible at the time of these expenses to "segregate" costs that would in the future be reimbursed by a program that did not yet exist. The FCC's rules do not mention any requirement to "segregate" subsidized costs and such a rule could at least in some cases be difficult to administer for FCC programs that only reimburse a portion of a larger overall expense. Nonetheless, LCPR appreciates the potential utility of the recommendation and will consider opportunities to employ it in the future.

CRITERIA

47 C.F.R. § 54.320(b) (2017)

Compliance and recordkeeping for the high-cost program. (b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the Universal Service High Cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.

FCC 18-57, para. 21

21."… Carriers must retain for at least ten years the records required to demonstrate that their use of this support complied with this Order and other Commission rules."

This concludes the report.

Attachment G

HC2021LR029

Available For Public Use

Preston Telephone Company
Audit Reference ID: HC2021LR029
(SAC No.: 351276)

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

Prepared for: Universal Service Administrative Company

As of Date: 9/26/2023

KPMG LLP
8350 Broad St, #900
McLean, VA 22102

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

September 26, 2023

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to Preston Telephone Company Study Area Code ("SAC") No. 351276 ("Preston" or "Beneficiary") for disbursements, of $1,558,958 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019. Our work was performed during the period from September 17, 2021 to September 26, 2023, and our results are as of September 26, 2023.

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

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program (collectively, the "FCC Rules") relative to disbursements, of $1,558,958, made from the High Cost Program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules as outlined in the Scope and Procedures sections of this report.

As our report further describes, KPMG identified one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost program for the twelve-month period ended December 31, 2019 were $8,455 lower than they would have been had the amounts been reported properly.

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

KPMG

In addition, we also noted findings that are not significant within the context of the audit objective but warrant the attention of those charged with governance. We reported these findings to the Beneficiary's management in a separate letter dated September 26, 2023.

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

Sincerely,

KPMG LLP

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

List of Acronyms

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]			
	HCL	CAF BLS	CAF ICC	Total
HC2021LR029-F01: 47 C.F.R. § 32.2000(g)(2)(iii) - Inaccurate Depreciation Calculation – The Beneficiary used straight-line depreciation as opposed to average monthly balances to compute depreciation expense as prescribed by FCC Rules.	($7,655)	($800)	$0	($8,455)
Total Net Monetary Effect	($7,655)	($800)	$0	($8,455)

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

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 351276, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	($7,655)	($800)	$0	($8,455)	N/A
Mechanism Total	**($7,655)**	**($800)**	**$0**	**($8,455)**	**N/A**

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

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $1,558,958, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Preston Telephone Company (SAC No. 351276), the subject of this performance audit, is a rural ILEC located in Preston, Iowa that serves around 1,000 lines in Jackson County. Preston Telephone Company provides internet, tv, phone, and computer services to its customers.

The Beneficiary is a small family owned and operated company, consisting of 8 employees. As such, they have a simple organization structure and no subsidiaries. Preston is a stock Company with approximately 70 shareholders.

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

High Cost Support	Disbursement Amount
CAF BLS	$687,696
CAF ICC	$100,014
HCL	$771,248
Total	$1,558,958

Source: USAC

In addition to the above, the Beneficiary also received $8,306 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

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

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

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

OBJECTIVES

The audit objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $1,558,958 , made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost Program forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost Program forms or other correspondence, and evaluation of disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work was focused on the High Cost Program forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019.[2]

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

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

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

PROCEDURES

1. **Materiality Analysis**

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

2. **Reconciliation**

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

3. **Assets**

   KPMG utilized a monetary unit sampling (MUS)[4] methodology considering tolerable rate of error and confidence level to select samples from material accounts identified in the relevant High Cost Program forms, which resulted in 19 asset samples. We made asset selections from CPR details, and material accounts included C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

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

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

4. **Expenses**

   KPMG utilized a monetary unit sampling methodology considering tolerable rate of error and confidence level to select samples including payroll from material operating expense accounts identified in the relevant High Cost Program form, which resulted in 20 expense samples. We agreed expense amounts to the supporting documentation, such as invoices and payroll support. Additionally, we reviewed the expense transactions for proper Part 32 account coding/categorization by expense type along with the nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

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

6. **COE Categorization**

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

7. **C&WF Categorization**

   KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We assessed whether C&WF amounts reconciled to studies and whether amounts agreed to the HCL form data and also performed a route distance inspection. We also sampled a newer C&WF route and validated active subscribers on the route during the period under audit.

8. **Overheads**

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

9. **Taxes**

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

10. **Part 64 Cost Allocations**

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

11. **Affiliate Transactions**

KPMG concluded, as Preston is a small, family owned company, that the beneficiary had no affiliates for the year 2017. As such, KPMG did not perform procedures to assess the reasonableness of affiliate transactions that occurred during 2017. These procedures would have included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing.

12. **Revenues, Subscriber Listings and Billing Records**

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

13. **Revenue Requirement**

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

RESULTS

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

FINDING, RECOMMENDATION AND BENEFICIARY RESPONSE

Through its audit, KPMG identified 1 finding and details the finding, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR029-F01: 47 C.F.R. § 32.2000(g)(2)(iii) - Inaccurate Depreciation Calculation

CONDITION

KPMG obtained and examined the Beneficiary's G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. For the period of January 1, 2017 through December 31, 2017, the Beneficiary used individual asset depreciation for general support assets and straight-line depreciation to calculate depreciation for other accounts, instead of average monthly balances to compute depreciation expense.

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

Account Description	For the 12 months ended December 31, 2017 $ Variance
Account 3100 (2100): Accumulated Depreciation -General Support Assets and Account 6560 (2100) Depreciation Expense – General Support Assets	($5,417)
Account 3100 (2230): Accumulated Depreciation -Central Office Transmission Equipment and Account 6560 (2230): Depreciation Expense -Central Office Transmission Equipment	($24,051)
Account 3100 (2410): Accumulated Depreciation - C&WF and Account 6560 (2410): Depreciation Expense – C&WF	$23,313

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

CAUSE

The calculation of accumulated depreciation and depreciation expense method was not in accordance with FCC Rules, due to the Beneficiary using individual asset depreciation for general support assets and straight-line depreciation for other accounts, instead of average monthly balances to compute depreciation expense.

EFFECT

KPMG calculated the monetary impact of this finding by subtracting the variances noted in the "Condition" above to the following accounts: subtracting $5,417 from Accumulated Depreciation – Land and General Support Assets and Depreciation Expense – Land and Support Assets; and subtracting $24,051 from Accumulated Depreciation – Central Office Transmission Equipment and Depreciation Expense – Central Office Transmission Equipment; and adding the variance noted in the "Condition" above of $23,313 to 2,657 from Accumulated Depreciation – C&WF and Depreciation Expense – C&WF in the Beneficiary's High Cost program filings. This resulted in an under-payment of $8,455 which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019 below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($7,655)
CAF BLS	($800)
CAF ICC	$0
Total	($8,455)

RECOMMENDATION

As the above finding represents an underpayment, the total recommended recovery is zero, as USAC policy is not to issue support in the case of a net underpayment. Thus, KPMG recommends recovery of $0.

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

BENEFICIARY RESPONSE

GSA Accumulated Depreciation and Depreciation Expense Finding:

Regarding the calculation of depreciation expense for general support assets, we concur the practice of using individual asset depreciation is not in accordance with FCC Rules. We accept this finding and the associated lower depreciation expense and reduction in USF revenues that were reported on the 2018-1 HCL USF Form and the FCC Form 509.

While we have not run a calculation of the reduction in USF this finding caused, it appears reasonable, and we are not disputing KMPG's amount.

COE Accumulated Depreciation and Depreciation Expense Finding:

Regarding the calculation of depreciation expense for central office transmission equipment, we concur the practice of using straight line depreciation is not in accordance with FCC Rules. However, we spent numerous hours responding to data requests, on phone calls, responding to emails, and provided sufficient detail to KPMG to demonstrate that while the books did not record depreciation expense monthly, an Adjusting Journal Entry during the Audit of the financial statements was calculated based on average monthly balances to compute depreciation expense, as prescribed by FCC Rules for the period of January 1, 2017 through December 31,

2017. We offer to walk KPMG through the Adjusting Journal Entry calculation another time. KPMG is free to challenge our calculation of average monthly balances to compute depreciation expense in the Adjusting Journal Entry or KPMG could say they were unable to verify or replicate our calculation; but it is factually incorrect to state that the Audited Financial Statements calculation of depreciation expense for these accounts was based on the use of straight-line depreciation expense. We do not concur with this finding as written.

The company will look into making monthly depreciation expense journal entries based on the use average monthly balances to compute depreciation expense rather than wait until the end of the year.

C&WF Accumulated Depreciation and Depreciation Expense Finding:

Regarding the calculation of depreciation expense for cable and wire facilities, we concur the practice of using straight line depreciation is not in accordance with FCC Rules. However, we spent numerous hours and provided sufficient detail to KPMG to demonstrate that while the books did not record depreciation expense monthly, an Adjusting Journal Entry during the Audit of the financial statements was calculated based on average monthly balances to compute depreciation expense, as prescribed by FCC Rules for the period of January 1, 2017 through December 31, 2017. We offer to walk KPMG through the Adjusting Journal Entry calculation another time. KPMG is free to challenge our calculation of average monthly balances to compute depreciation expense in the Adjusting Journal Entry or KPMG could say they were unable to verify or replicate our calculation; but it is factually incorrect to state that the Audited Financial Statements calculation of depreciation expense for these accounts was based on the use of straight-line depreciation expense. We do not concur with this finding as written.

The company will look into making monthly depreciation expense journal entries based on the use average monthly balances to compute depreciation expense rather than wait until the end of the year.

KPMG RESPONSE

KPMG notes Preston's agreement with the GSA portion of the finding and disagreement with the COE and C&WF portions of the finding. Our response below is in regard to our procedures for the depreciation recalculations that the Beneficiary disagreed with above.

KPMG obtained Preston's depreciation calculation for Central Office Equipment and Cable & Wire Facilities accounts to review and recalculate and noted that the beginning of year asset balances for each account were multiplied by the yearly depreciation rate for that account as part of the depreciation recorded for the year. Additions for each of the COE and CW&F accounts were compiled for a month and then multiplied by the monthly account depreciation rate and then multiplied by the number of months remaining in the year, thus application of straight-line depreciation for additions. Then this calculation was added to the total beginning of year balance calculation to come to the total depreciation recorded for the year as the Adjusting Journal Entry mentioned in the Beneficiary response. Averages of account balances month over month were not part of the calculation. Additionally all retirements were noted as of December 31, 2017 and thus were not considered in the Beneficiary's calculation of depreciation expense and accumulated depreciation for 2017.

Thus, based on KPMG's recalculation of depreciation for COE and C&WF accounts utilizing monthly average balances of asset accounts to determine the 2017 depreciation expenses, a difference exists between Preston's method of depreciation and the FCC rules. Please note that KPMG's performance audit was not an audit of Preston's Audited Financial Statements, and our findings should not be interpreted as such. KPMG's performance audit is specific to for disbursements, of $1,558,958 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(iii) (2017)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."
#1	47 C.F.R. § 32.3100 (2017)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#1	47 C.F.R. § 32.6560 (2017)	Depreciation and amortization expenses. "Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565."

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of the FCC Rules relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019 identified a Depreciation Expense finding.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	($7,655)
CAF BLS	($800)
CAF ICC	$0
Total Impact	**($8,455)**

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

** This concludes the audit report.**

Attachment H

HC2022LR024

Available For Public Use

South Central Rural Telecommunications Coop, Inc.

Limited Review Performance Audit on

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

USAC Audit No. HC2022LR024

Prepared For:

Universal Service Administrative Company

January 13, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

January 13, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of South Central Rural Telecommunications Coop, Inc. (SCRTC or the Beneficiary), study area code **260418** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 10, 2022, to January 13, 2023.

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

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

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

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

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP
Greenbelt, MD
January 13, 2023

AUDIT RESULTS AND RECOVERY ACTION

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

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total[1]	
Finding #1: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included transactions that were not necessary for the provision, maintenance, and upgrading of facilities and services for which the support is intended for High Cost Program purposes.	$6,216	$14,402	$0	$20,618	$20,618
Finding #2: 47 C.F.R. § 32.12 - Inaccurate reporting of expense. The Beneficiary did not true-up pole rental accruals to actual.	($3,427)	($11,259)	$0	($14,686)	$0
Finding #3: 47 C.F.R. § 32.6112(b) - Overhead Distribution Cleared to Non-Plant Specific Accounts. The Beneficiary allocated overhead to both plant and non-plant/construction accounts.	($45,461)	($89,749)	$0	($135,210)	$0
Finding #4: 47 C.F.R. § 64.901 Inaccurate Cost Study Adjustments –Expenses. The Beneficiary submitted inaccurate cost study adjustments in its reporting of its expenses for High Cost program purposes.	$5,169	$9,082	$0	$14,251	$14,251
Total	($37,503)	($77,524)	$0	($115,027)	$34,869

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

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 260418, 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)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$6,216	$14,402	$0	$20,618	N/A
Finding #2	($3,427)	($11,259)	$0	($14,686)	N/A
Finding #3	($45,461)	($89,749)	$0	($135,210)	N/A
Finding #4	$5,169	$9,082	$0	$14,251	N/A
Total	**($37,503)**	**($77,524)**	**$0**	**($115,027)**	

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

[2] Id.

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that is a full service telecommunications company offering traditional telephone (local and long-distance), cellular, paging, digital television, DSL Internet, and dial-up Internet service across nine counties in Kentucky (Barren, Metcalfe, Hart, Green, Larue, Allen, Monroe, Adair, and Nelson).

Currently the Beneficiary has 30,000 access lines, 16,121 video customers, 11,659 DSL customers, and 1,500 dial-up Internet customers. SCRTC is also a part owner of Bluegrass networks and Bluegrass Telcom Cellular Corporations. Additionally, SCRTC is providing its services through South Central LLC (SCT), a wholly owned subsidiary approved by the Kentucky Public Service Commission as a Competitive Local Exchange Carrier (CLEC). SCRTC is providing these services in adjoining communities currently served by other telephone companies.[3] The Beneficiary and its affiliated entities provide non-regulated services including switching services, billing, and collections to one another.

PROGRAM OVERVIEW

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

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

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

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

[3] https://greencounty.ky.gov/department/Pages/scrtc.aspx

the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$5,339,202
High Cost Loop (HCL)	2018-2019	2020	$4,995,072
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$1,795,938
		Total	**$12,130,212**

PROCEDURES
We performed the following procedures:

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

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

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

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

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

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

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support

CONDITION

CLA obtained and examined the Beneficiary's general ledger for the twelve months ended December 31, 2018, twelve months ended September 30, 2019 (to cover Dash Period 1 through 4), and supporting documentation such as invoices, contracts, and receipts to determine whether the Beneficiary excluded non-regulated costs from the account balances, in accordance with FCC Order 15-133[4], and further clarified by FCC order 18-29[5], as reported for High Cost program purposes.

Utilizing data analytics tools, CLA selected for analysis a non-statistical sample of 1,437 general ledger transactions totaling $3,461,532 for the data period of January 1, 2018, to September 30, 2019. CLA identified transactions totaling $53,629, where the Beneficiary did not exclude expenses (related to late fees, food, sponsorships, non-allowable marketing for which a portion was previously removed as non-regulated via monthly GL entries) that were not necessary for the provision, maintenance, and upgrading of facilities and should therefore have been removed during the Beneficiary's cost study process.

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

Account	As Reported in Part 64 (A)	Unallowable Expenses (B)	Recalculated Balance (A) + (B)
Period of January 01, 2018 – December 31, 2018			
Network Operations Expense (Acct 6530)	$2,393,073	($212)	$2,392,861
Services Expense (Acct 6620)	$1,771,983	($852)	$1,771,131
General and Administrative Expense (Acct 6720)	$1,873,358	($30,576)	$1,842,782
Period of April 01, 2018 - March 30, 2019			
Network Operations Expense (Acct 6530)	$2,283,739	($212)	$2,283,527
Services Expense (Acct 6620)	$0	($532)	($532)
General and Administrative Expense (Acct 6720)	$1,891,914	($29,185)	$1,862,729
Period of July 01, 2018 - June 30, 2019			
General Support Expense (Acct 6120)	$902,852	($28)	$902,824
Network Operations Expense (Acct 6530)	$2,293,296	($212)	$2,293,084
Services Expense (Acct 6620)	$0	($1,658)	($1,658)
General and Administrative Expense (Acct 6720)	$1,940,342	($29,756)	$1,910,586

[4] *FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2015).

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

Period of October 01, 2018 - September 30, 2019			
General Support Expense (Acct 6120)	$912,493	($28)	$912,465
Network Operations Expense (Acct 6530)	$2,347,630	($12)	$2,347,618
Services Expense (Acct 6620)	$6,413,205	($1,438)	$6,411,767
General and Administrative Expense (Acct 6720)	$2,033,999	($30,134)	$2,003,865

CLA clarifies that while FCC 15-33 and FCC 18-29 were released during the audit's data period, the FCC rule that was effective during the audit period states that, "[a] carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[6] Thus, the Beneficiary should have removed the entire value of these unallowable transactions during its cost study process.

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

CAUSE

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

EFFECT

CLA calculated the monetary effect of this finding by subtracting the $53,629 from the applicable part 32 accounts submitted cost study balances in the High Cost filings for the periods ending December 31, 2018, March 31, 2019, June 30, 2019, and September 30, 2019, as shown in the table above.[7] The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$6,216
HCL	$14,402
CAF ICC	-
Total	**$20,618**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary perform a review of its expense transactions and remove any expenses that are deemed unallowable. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

6 See 47 CFR § 54.7(a) (2018).

7 As the total amount is broken down to only include expense applicable to the relative dash period, the total amount of $53,629 will not appear in the table above.

BENEFICIARY RESPONSE

The Carrier agrees with the assessment and have since been evaluating expenses with its consultant annually via the cost study and quarterly via the USF HCLS filings to determine appropriate removal due to ineligibility.

Finding #2: 47 C.F.R. § 32.12 – Inaccurate Reporting of Expense

CONDITION

CLA obtained and examined the general ledger and cost study balances to determine whether the Beneficiary reported accurate expense balances, including a non-statistical sample of 25 expense transactions totaling $732,835 for High Cost program purposes based on high dollar value and proportional to the investment impact on High Cost support. CLA noted an exception for one sample in the amount of $26,500, submitted in Account 6411, related to the pole rental accrual. After review of the general ledger and discussion with the Beneficiary, CLA determined there were no adjusting entries made to true-up the accrued poles rental expense to actual. To verify that expense was accurately reflected in the data filed for High Cost purposes, CLA obtained all pole rental invoices for the January 1, 2018, through September 30, 2019, data period, calculated applicable data period expense and compared it to the total submitted accruals for the data period. CLA concluded that the Beneficiary had under-accrued expense by $29,210 as shown in the table below.

Verified Expense	Submitted Accrual	Amount of Under-Accrued
$569,210	$540,000	$29,210

The Beneficiary did not have an adequate system in place to review and true-up pole rental accruals, therefore, CLA determined the Beneficiary did not record expense transactions in the proper amount. The cost study balances reported for High Cost program purposes were not accurately reported.

CAUSE

FCC rules require financial records be kept in accordance with generally accepted accounting principles.[8] The Beneficiary did not have an adequate system in place for reviewing, collecting, reporting, and monitoring data to ensure transactions were recorded properly.

EFFECT

CLA calculated the monetary effect by adding $13,263 to account 6410 expenses submitted in the study for period ending December 31, 2018. CLA additionally calculated the monetary effect by adding $17,763 to account 6410 submitted in the study for periods ending March 31, 2019, and $22,263 for each the June 30, 2019, and September 30, 2019, study periods. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($3,427)
HCL	($11,259)
CAF ICC	-
Total	($14,686)[9]

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

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

RECOMMENDATION
CLA recommends the Beneficiary institute and maintain a proper system to review and true-up accruals to ensure proper reporting of expenses for High Cost purposes. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Carrier is reviewing process to ensure that all accruals are trued up at yearend for reporting purposes.

Finding #3: 47 C.F.R. § 32.6112(b) Overhead Distribution Cleared to Non-Plant Specific Accounts

CONDITION
CLA obtained and examined documentation, including the Beneficiary's labor distribution reports, general ledger, and clearing reports, to determine whether the Beneficiary was properly clearing overhead to plant specific or construction accounts. Upon review of the labor distribution reports and the general ledger, CLA noted that overhead clearing amounts were being cleared to non-plant related accounts. According to Commission Rules[10], credits shall be made to this account for amounts transferred to construction and/or to other Plant Specific Operations Expense accounts.

CLA recalculated the overhead distribution to properly allocate overhead costs to the plant & construction specific accounts only by utilizing direct labor hours.[11] Each clearing account utilized slightly different destination accounts to clear its overhead, therefore CLA recalculated each moth individually utilizing the monthly Secondary Distribution reports. CLA excluded the non-plant specific account hours to recalculate base hours and develop new allocation factors to be applied to the amounts identified to be distributed in the reports. The calculated labor hours ratios were applied to the overhead amounts to reallocate to plant specific accounts only. Our analysis results yielded new allocation amounts that were compared to the original overhead allocation amounts to determine the variances. CLA summarized the variances within the table below:

Account	Addition/ (Removal) for Period of January 1, 2018 - December 31, 2018	Addition/ (Removal) for Period of April 01, 2018 - March 30, 2019	Addition/ (Removal) for Period of July 01, 2018 – June 30, 2019	Addition/ (Removal) for Period of October 1, 2018 - September 30, 2019
(Account 2003)	$59,051	$61,586	$63,092	$61,637
General Support (Acct 6120)	$6,861	$6,486	$6,076	$5,917
Central Office	$4,039	$4,187	$4,101	$4,240

[10] *See* 47 C.F.R. § 32.6112(b), 6114(b), 6512(b) and 6534(b) (2018).
[11] The Beneficiary utilized direct labor hours as the suitable loading charge for account 6512.

Account	Addition/ (Removal) for Period of January 1, 2018 - December 31, 2018	Addition/ (Removal) for Period of April 01, 2018 - March 30, 2019	Addition/ (Removal) for Period of July 01, 2018 – June 30, 2019	Addition/ (Removal) for Period of October 1, 2018 - September 30, 2019
Switching (Acct 6210)				
Central Office Transmission (Acct 6230)	$14,331	$14,290	$15,198	$15,283
Cable and Wire Facilities (Acct 6410)	$85,795	$85,409	$86,995	$86,613
Network Operations (Acct 6530)	$62,893	$62,128	$64,130	$66,333
Marketing (Acct 6610)	($2,340)	($2,326)	($2,362)	($2,532)
Services (Acct 6620)	($296,550)	($298,992)	($305,479)	($305,148)

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.

EFFECT

CLA calculated the monetary effect for the periods ending December 31, 2018, March 30, 2019, June 30, 2019, and September 30, 2019, by adding or subtracting the amounts noted in the table above for the applicable period and account amounts submitted in the study filings. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($45,461)
HCL	($89,749)
CAF ICC	-
Total	**(135,210)**[12]

RECOMMENDATION

We also recommend that the Beneficiary make adjustments to allocate overhead to the correct accounts. The Beneficiary may learn more about documentation and reporting requirements on

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

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 spreads that allocate overhead to other accounts is done automatically in the carrier's accounting software based on labor hours. The carrier agrees that the system is not calculating appropriately based on Part 32 rules and is working internally and with its account software vendor to determine necessary implementation to correct issue going forward.

Finding #4: 47 C.F.R. § 64.901 - Inaccurate Cost Study Adjustments – Expenses

CONDITION

CLA obtained and examined documentation, including a listing of the Beneficiary's cost study adjustments, and supporting calculations, to determine whether the cost study adjustments were accurately calculated, supported by appropriate documentation, and booked in compliance with FCC Rules, which require carriers that must separate their regulated costs from nonregulated costs to use the attributable cost method of cost allocation.[13]

CLA noted that the investment adjustment booked to remove fiber leased to Bluegrass, an affiliate for which the Beneficiary chose to remove the regulated expense associated with the leased fiber instead of recovering the revenue, was inaccurately calculated. There were separate non-regulated allocation percentages related to the leased aerial (2.63%) and buried (0.46%) fiber determined by the Beneficiary. Per review of the submitted cost study adjustments, the non-regulated expense portion was calculated utilizing only the buried fiber allocation percentage against the total Account 6410 Cable and Wire expense. As the Account 6410 expense could be identified in the general ledger to break out between aerial and buried in the general ledger, CLA recalculated the adjustment to properly apply the aerial and buried non-regulated expenses. CLA summarized the exceptions within the table below:

Account	Study Area Adjustment #8	Revised Study Area Adjustment #8	Variance
Period of January 1, 2018 - December 31, 2018			
Cable and Wire Facilities (Acct 6410)	$12,983	$33,538	($20,555)
Period of April 01, 2018 - March 30, 2019			
Cable and Wire Facilities (Acct 6410)	$12,983	$34,071	($21,088)
Period of July 01, 2018 – June 30, 2019			
Cable and Wire Facilities (Acct 6410)	$12,983	$33,994	($21,011)
Period of October 1, 2018 - September 30, 2019			
Cable and Wire Facilities (Acct 6410)	$12,886	$25,777	($12,891)

13 *See* 47 CFR 64.901(a) (2018).

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure non-regulated allocation percentages were properly applied to expenses for the reporting of High Cost program purposes.

EFFECT

CLA calculated the monetary effect by subtracting the variance amounts per filing noted in the table above from the account 6410 study balances of $2,842,120 at December 31, 2018, $2,870,049 at March 31, 2019, $2,865,424 at June 30, 2019, and $2,930,929 at September 30, 2019. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$5,169
HCL	$9,082
CAF ICC	-
Total	**$14,251**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary correct the adjusting entry to include the allocation of leased aerial and buried fiber. 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

After review of the audit period, no records of individual requests for maintenance from lessees were identified. From gaining this information, we've determined that removing a percentage of expenses that corresponded with the portion of assets being removed was incorrect and should not have been removed. The carrier now identifies any direct charges for maintenance expense of leased fibers to be removed from the cost study.

CLA RESPONSE

When non-regulated assets have been identified, the asset as well as a relative portion of the reserves, depreciation expense and plant expenses are removed along with the assets. The Beneficiary states that cable and wire plant expense, outside of depreciation, should not have been removed from expenses reported for High Cost purposes as they did not provide any maintenance for the fibers leased to their affiliate Bluegrass. The "3rd Revised addendum No. 4" agreement provided by the Beneficiary only gives details such as effective date, locations, mileage and monthly lease payments. There is no other information included in the documentation provided as the lease agreement that stipulates the responsibilities of the lessee to provide its own maintenance for the portion of the cable and wire network they utilize. Therefore, CLA cannot make the determination, and does not agree that a portion of the plant expense, other than depreciation. should not have been removed from High Cost submitted expenses. This finding will remain unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.7(a) (2018-2019).	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.
#1	FCC Reminds ETCs of High-Cost Support Requirements, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2015).	Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended... The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments; • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and • Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.
#1	Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).	In this Report and Order, we adopt reforms to ensure that high-cost universal service support provided to eligible telecommunications carriers (ETCs) is used only for the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended pursuant to section 254(e) of the Act. We also adopt reforms to ensure that the investments and expenses that rate-of-return carriers recover through interstate rates are reasonable pursuant to section 201(b) of the Act. Our findings here do not prevent rate-of return

		carriers from incurring any particular investment or expense, but simply clarify the extent to which investments and expenses may be recovered through federal high-cost support and interstate rates. The rules we adopt are prospective, but the underlying obligations are preexisting and many of the rules we adopt today codify existing precedent. Our rules and the used and useful standard have long governed ETCs and rate-of-return carriers' behavior. Nothing we do in this Report and Order is intended to undermine our precedent.
#2	47 C.F.R § 32.12 (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. (b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission. (c) The Commission shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.
#3	47 C.F.R. § 32.6112(b) (2018)	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.
#3	47 C.F.R. § 32.6114(b) (2018)	Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
#3	47 C.F.R. § 32.6512(b) (2018)	Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared

		by adding to the cost of material and supplies a suitable loading charge.
#3	47 C.F.R. § 32.6534(b) (2018)	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.
#4	47 C.F.R. § 64.901 (2018)	(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. Non tariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. (2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.

		(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. (4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed. (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.

Attachment I

HC2022LR030

Wood County Telephone Company

Limited Review Performance Audit on

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

USAC Audit No. HC2022LR030

Prepared For:

Universal Service Administrative Company

September 13, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

September 13, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Wood County Telephone Company (Beneficiary), study area code **330974** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from February 24 to September 13, 2022.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
September 13, 2022

AUDIT RESULTS AND RECOVERY ACTION

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

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 64.901(a) – Improper Inclusion of Non-Regulated Assets The Beneficiary improperly included material inventory that were located in the Beneficiary's non-regulated completive local exchange company's (CLEC) study area within its regulated study balance reported for High Cost Program purposes.	$17,340	$2,801	-	$20,141
Finding #2: 47 C.F.R. § 32.27, 47 C.F.R. § 54.320(b) and 47 C.F.R. § 64.901 – Improper Treatment of Affiliate Transactions The Beneficiary 1) failed to maintain documentation to support the valuation of its billing and collection service provided to its affiliate as well as support for the allocation of non-regulated cost associated with providing this service out of their regulated balance; and 2) failed to perform a fair market valuation timely for its technical assistance service provided by its affiliate.	$ 6,258	-	-	$ 6,258
Total Monetary Effect	**$23,598**	**$2,801**	**$0**	**$26,399**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SAC 330974 and will seek recovery from the Beneficiary for the High Cost Program support in the amount noted in the chart below.

Regarding the recommendation for Finding #1, USAC's High Cost Program Management will review this internally and make a determination accordingly. The Beneficiary must also implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Regarding Finding #2, USAC Management requires the Beneficiary to be placed on a Corrective Action Plan (C.A.P.) to address lack of documentation and data retention procedures. As part of the C.A.P., the Beneficiary must report to High Cost Management, within 60 days of the date of the Recovery Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

	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	$17,340	$2,801	-	$20,141	N/A
Finding #2	$6,258	-	-	$6,258	N/A
Total	**$23,598**	**$2,801**	**-**	**$26,399**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to more than 10,000 subscribers over telecommunication services in central Wisconsin. The Beneficiary has two wholly owned subsidiaries: Manawa Telephone Company, which is also a cost-based eligible telecommunications carrier, and Central Wisconsin Communications, LLC. Collectively these three companies do business as Solarus. Solarus also provides non-regulated services including internet, video, VoIP, call features, inside wiring services, and equipment sales.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$6,357,756
HCL	2018-2019	2020	$694,003
CAF ICC	2017-2019	2020	$1,283,148
		Total	**$8,334,907**

PROCEDURES
We performed the following procedures:

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

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

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

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

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

F. Affiliate Transactions

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

G. Cost Allocation

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

DETAILED AUDIT FINDINGS

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

CONDITION

CLA obtained and examined the Beneficiary's general ledger, CPRs and cost study adjustments to determine whether non-regulated costs were accurately excluded from the account balances reported for High Cost Program purposes. Carriers are required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.[1] The Beneficiary did not accurately allocate certain material inventory assets between regulated and non-regulated for the period from January 1, 2018, to September 30, 2019.[2] The Beneficiary improperly included material inventory such as fiber and duct assets for a total of $296,419 in its regulated balances even though these material inventory assets were located in the Beneficiary's non-regulated competitive local exchange (CLEC) study area.

For the removal of the total non-regulated amount identified, Table 1 summarizes the Beneficiary's balances as reported on their Part 64 Cost Study for account 2410 for each dash filing divided by the identified non-regulated asset balance to obtain the allocation percentage applied to the asset related accounts.

Table 1: Cable and Wire Facilities (Account 2410)			
Period	**Part 64 Cost Study As Reported (A)**	**Non-Regulated Amount (B)**	**% Allocation for Removal of Non-Regulated Amount (B/A)**
Dash 1 Filing (As of December 31, 2018)	$73,921,060.00	$296,419	0.4010%
Dash 3 Filing (As of June 30, 2019)	$76,089,288.00	$296,419	0.3896%
Dash 4 Filing (As of September 30, 2019)	$78,360,340.00	$296,419	0.3783%

Utilizing the allocation percentage calculated on Table 1, Table 2 below captures the rate making Part 64 account balances affected: accumulated depreciation (account 3100-2410), Net noncurrent deferred operating income taxes (account 4340-2410), depreciation expense (account 6560-2410), and cable and wire expense (account 6410) including data line 700 and date line 710.

[1] 47 C.F.R. § 64.901(a) (2018).

[2] The Beneficiary is a multi-dash filer for the periods as of 12/31/2018, as of 6/30/2019, and 9/30/2019.

Table 2A: Impact to Reported Account Balances				
Account	Part 64 Cost Study as Reported (A)	% Allocation for Removal	Adjustment (D)	Part 64 Recalculated Balance (A-D)
Dash 1 Filing (As of December 31, 2018)				
Cable and Wire Facilities (Acct 2410)	$73,921,060	0.4010%	($296,419)	$73,624,641
Accumulated Depreciation (Acct 3100_2410)	$43,976,367	0.4010%	($176,343)	$43,800,024
Net noncurrent deferred operating income taxes (Acct 4340_2410)	$5,273,161	0.4010%	($21,145)	$5,252,016
Cable & Wire Facilities Expense (Acct 6410)	$711,630	0.4010%	($2,854)	$708,776
Depreciation Expense (Acct 6560_2410)	$1,625,259	0.4010%	($6,517)	$1,618,742
Cable and Wire Facilities (DL700)	$73,921,060	0.4010%	($296,419)	$73,624,641
Category 1 Investment for Cable and Wire (DL710)	$22,424,297	0.4010%	($89,920)	$22,334,377
Dash 3 Filing (As of June 30, 2019)				
Cable and Wire Facilities (Acct 2410)	$76,089,288	0.3896%	($296,419)	$75,792,869
Accumulated Depreciation (Acct 3100_2410)	$44,738,009	0.3896%	($174,285)	$44,563,724
Net noncurrent deferred operating income taxes (Acct 4340_2410)	$5,336,710	0.3896%	($20,790)	$5,315,920
Cable & Wire Facilities Expense (Acct 6410)	$746,601	0.3896%	($2,909)	$743,692
Depreciation Expense (Acct 6560_2410)	$1,749,372	0.3896%	($6,815)	$1,742,557
Cable and Wire Facilities (DL700)	$76,089,288	0.3896%	($296,419)	$75,792,869
Category 1 Investment for Cable and Wire (DL710)	$18,182,337	0.3896%	($70,832)	$18,111,505
Dash 4 Filing (As of September 30, 2019)				
Cable and Wire Facilities (Acct 2410)	$78,360,340	0.3783%	($296,419)	$78,063,921
Accumulated Depreciation (Acct 3100_2410)	$45,187,898	0.3783%	(170,935)	$45,016,963

Net noncurrent deferred operating income taxes (Acct 4340_2410)	$5,429,914	0.3783%	($20,540)	$5,409,374
Cable and Wire Facilities Expense (Acct 6410)	$890,081	0.3783%	($3,367)	$886,714
Depreciation Expense (Acct 6560_2410)	$1,846,585	0.3783%	($6,985	$1,839,600
Cable and Wire Facilities (DL700)	$78,360,340	0.3783%	($296,419)	$78,063,921
Category 1 Investment for Cable and Wire (DL710)	$17,538,651	0.3783%	($66,345)	$17,472,306

Table 2B: Impact to Cable and Wire Facilities Categorization[3]			
Period	**Part 36 Cost Study as Reported (A)**	**CLA Audited Balance (B)**	**Understatement/ (Overstatement) (B-A)**
Category 1	$24,001,084	$23,901,822	($99,262)
Category 2 – Ex Trk x/WB	$50,943	$50,732	($211)
Category 2 – WB Trunk	$1,697,434	$1,690,414	($7,020)
Category 2 – WB Data Only Loop	$45,575,926	$45,387,437	($188,489)
Category 3 – Joint MSG x/WB	$341,504	$340,092	($1,412)
Category 3 PL & Local x/WB	$6,323	$6,297	($26)
Category 4	$0	$0	$0
Total	**$71,673,214**	**$71,376,794**	**($296,420)**

Because the Beneficiary improperly included non-regulated asset balances and related costs in its High Cost filing, CLA concludes that the Beneficiary did not report accurate asset, deferred taxes, accumulated depreciation, and asset related expense account balances. The Beneficiary must separate the regulated costs from non-regulated costs reported for High Cost Program purposes.

<u>CAUSE</u>
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude non-regulated amounts from the amounts reported for High Cost Program purposes. The Beneficiary informed CLA that Wood County had a vendor that did not provide the breakdown of materials used on their project work impacting the coding to the work order for proper coding. This created year-end inventory adjustments posted to the regulated accounts. A small portion of those materials were used in the CLEC market.[4] The errors occurred due to a change in process with one vendor in 2015 and 2016 causing assets placed in service those years to be incorrectly booked. The process was corrected in 2017.

[3] Reported balances for Cable and Wire Facilities Categorization for 2020 High Cost Program disbursements are only reported as of 12/31/18. Additionally, the balances are reported as an average balance, thus the balances reported for Category 1 for Tables 2A and 2B are different.
[4] Beneficiary's response to the Summary of Exceptions, received October 17, 2022.

EFFECT

CLA calculated the monetary effect of this finding by subtracting $296,420 from Cable and Wire Facilities (CWF) from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, June 30, 2019, and September 30, 2019, respectively. For these same periods, CLA additionally applied the non-regulated percentage calculated in Table 1 above to CWF Accumulated depreciation, CWF Net Non-Current Deferred Operating Income Tax, CWF expense, and CWF Depreciation expense account balances, respectively.[5] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$17,340
HCL	$2,801
CAF ICC	-
Total	**$20,141**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. 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/. CLA also recommends that USAC Program Management follows up on the incorrect accounting for assets effect on prior years filings which include the incorrect data from 2015 and 2016.[6]

BENEFICIARY RESPONSE

We agree with the recovery amount shown for 2020 disbursements. As stated in the cause above, this error was specific to an issue with a single vendor and was contained entirely within the period covered by this review.

Finding #2: 47 C.F.R. §§ 32.27, 54.320(b), and 64.901 – Improper Treatment of Affiliate Transactions

CONDITION

CLA obtained and examined documentation to determine whether the Beneficiary properly recorded its affiliate transactions. CLA determined the Beneficiary had four types of affiliates transactions; providing billing and collection services as well as switching services to its affiliate and receiving long distance services and technical assistance services from its affiliate. CLA selected a non-statistical sample of nine transactions, which covered the four transaction types, to review and identified non-compliance with the FCC Rules (Rules) governing affiliate transactions for two of the nine samples, as follows:

1. The first affiliate sample was related to the billing and collection services the Beneficiary provides its affiliated entities, which total $139,052 and $72,180 for the December 31, 2018, and September 30, 2019, High Cost Program filings, respectively. The sample

[5] Please see the Adjustment Column in Table 2A for each account and data periods respective adjustment utilized for recalculation of High Cost Program support.

[6] CLA recommends USAC Program Management follow-up as the prior periods are outside of the scope of the CLA audit period.

transactions were recorded as miscellaneous revenue (account 5270). In providing support, the Beneficiary indicated the transaction was valued with tariff pricing. However, the Beneficiary was unable to provide supporting documentation to substantiate the tariff.[7] Furthermore, the Beneficiary was unable to provide supporting documentation to demonstrate they had allocated the non-regulated cost associated with providing this service out of their regulated balance.

2. The second affiliate sample related to the Beneficiary receiving technical assistance service valued at $1,464,000 for both the December 31, 2018, and September 30, 2019, High Cost Program filings, respectively for the account network operations expense (account 6530). Since the service value exceeded $500,000, the Beneficiary was required to perform a good faith determination of fair market value. However, the Beneficiary did not perform the fair market valuation prior to submitting its Part 36 data for High Cost support.

CAUSE

The Beneficiary 1) did not demonstrate sufficient knowledge of the Rules governing affiliated transactions and 2) did not have adequate controls, policies, and procedures to maintain sufficient documentation to demonstrate compliance with the Rules. The Beneficiary informed CLA that moving forward the billing and collection service will be valued at fully distributed cost in accordance with the Rules. Additionally, the Beneficiary indicated they plan on implementing a policy and developing a template for documenting fair market valuation for transactions exceeding $500,000 to demonstrate compliance with the Rules.[8]

EFFECT

CLA calculated the monetary effect by asking the Beneficiary to perform a study for the fully distributed cost associated with providing the billing and collection services to its affiliated entities. CLA determined the Beneficiary could support $132,767 for billing and collection services rendered. CLA then netted the supported billing and collection revenue against the billing and collection expense from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$6,258
HCL	$0
CAF ICC	$0
Total	**$6,258**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that that the Beneficiary perform an analysis of its billing and collection services, valuing the service utilizing the fully distributed method, for the ten-year period 2012-2021. The Beneficiary is to provide the analysis, and any supplemental supporting documentation, to the High Cost Program. After receipt of the analysis, the High Cost Program

[7] The Beneficiary explained the rates they were utilizing for the billing and collection service were derived from interstate tariffs originating from the early 2000's, and that the service was subsequently de-tariffed in the mid 2000's. The Beneficiary also confirmed these rates were still in effect as of audit announcement. Thus, CLA determined non-compliance related to this affiliate transaction likely existed for more than a decade.

[8] Beneficiary's response to the Summary of Exceptions, received October 17, 2022.

should follow-up with the carrier to ensure that the carrier has properly applied the fully distributed method to applicable affiliate transactions.[9] 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

We agree with the recovery amount shown for 2020 disbursements. We will establish a method for a fully distributed cost to include in future filings.

[9] CLA recommends USAC Program Management follow-up as the prior periods are outside of the scope of the CLA audit period.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 64.901(a) (2018-19)	(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.
#2	47 C.F.R. § 32.27 (2018-19)	Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section. (b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost. (1) Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (2) Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

		(3) Threshold. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost. (c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost. (1) Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (2) Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost

		establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. (d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied. (e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise

		attributable to any member, or combination of members, of the affiliated group. (f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.
#2	47 C.F.R. § 54.320(b) (2018-19)	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. § 64.901 (2018-19)	(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 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.

Attachment J

HC2022LR036

Available For Public Use

Liberty Mobile USVI, Inc.
f/k/a
AT&T Mobility USVI, Inc.

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

USAC Audit No. HC2022LR036

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EXECUTIVE SUMMARY

August 24, 2023

Mr. Luis Mendez del Nido
Liberty Mobile USVI, Inc. (Formerly AT&T Mobility USVI)
279 Ponce de Leon Ave
San Juan, PR 00918

Dear Mr. Mendez del Nido:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Liberty Mobile USVI, Inc. (formerly, AT&T Mobility USVI, Inc.) (Beneficiary), study area code 649006, disbursements for Stage 1 of the Connect USVI Fund using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in Federal Communications Commission (FCC) Order and Notice of Proposed Rulemaking 18-57, FCC Public Notice DA 18-825, FCC 17-129, FCC 16-173, 47 C.F.R. § 54.707, as well as other program requirements (collectively, FCC Rules), as applicable. Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination disclosed one (1) detailed audit finding, as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a "finding" is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanette Santana Gonzalez

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

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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect[1]	Recommended Recovery
Finding: 47 C.F.R § 54.320 (b) – Inadequate Documentation for USF Support Use / Retention of Documentation – Assets and Expenses. The Beneficiary did not have adequate processes and procedures in place, including Disaster Recovery and/or Business Continuity Planning, to ensure that appropriate records were segregated and retained to support the asset and expense amounts for disaster related circumstances, and did not provide documentation to support the expenditures related to Connect USVI funds.	$4,719,926	$0
Total	**$4,719,926**	**$0**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SAC 649006, for 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.

	Support Type (A)	USAC Recovery Action (A)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$0	$0	N/A
Mechanism Total	**$0**	**$0**	**N/A**

As there is no monetary effect for this Finding, the total recommended recovery is zero.

[1] The monetary effect reflects the monetary impact "Post AAD's Field Work" and not "Post Finalized Audit", see Detail Audit Finding: 47 C.F.R § 54.320 (b) – Inadequate Documentation for USF Support Use / Retention of Documentation – Assets and Expenses for further details.

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
Stage 1 of the Connect USVI Fund	Sept. 7, 2017 – June 30, 2019	July 2018	$4,719,926
		Total	**$4,719,926**

BACKGROUND
The Beneficiary is a local exchange carrier (LEC) certified by the Virgin Islands Public Service Commission (VIPSC) as an eligible telecommunications carrier (ETC) and is the wireless services provider for the Virgin Islands. During the funding period of July 2018 to June 30, 2019, Liberty Mobile Virgin Island (LMVI) was 100% owned by Beach Holding Corporation, which was owned by AT&T Corporation (29.62%), AT&T International Holdings, LLC (29.48%), and SBC Telecom (40.9%); and AT&T, Inc. held these three intermediary holding companies. In October 2020, LMVI acquired AT&T Mobile USVI's customer base, and its name officially changed to LMVI when it is now parent corporation, Liberty Latin America, acquired the entity from Beach Holding/AT&T, Inc.

PROCEDURES
AAD performed the following procedures:

A. General Procedures and Beneficiary Eligibility
AAD obtained a copy of the relevant ETC designation order from the local state commission and examined the document to determine when the Beneficiary was designated as an ETC in the study area to qualify for receiving High Cost Program support. To determine the Beneficiary's compliance with FCC and High Cost program rules for receiving funds under the Connect USVI Stage 1 program, AAD obtained an understanding of the Beneficiary's processes and examined the hurricane-related costs and efforts to restore its network operations to levels existing pre-hurricane and any efforts to "harden" or strengthen its networks to withstand future hurricanes.

B. Expenditures Eligibility
AAD examined the general ledger details to determine whether the ETC used Connect USVI Fund Stage 1 support only for expenditures incurred during the program time period (from the date that the affected areas were declared a disaster by the Federal Emergency Management Agency following Hurricanes Irma and Maria through June 30, 2019). In addition, AAD selected expense transactions and examined invoices to support the existence, accuracy, and timing of the incurred expenses.

C. Service Restoration
AAD obtained and examined documentation demonstrating the upstream and downstream speeds, latency, coverage area, and any other service qualities pre-hurricane and post-hurricane. AAD requested and reviewed information regarding whether the Beneficiary offered Backhaul support to all interested parties on non-discriminatory terms for a period of one year following the first receipt of funds.

D. Other Sources of Funding/Reimbursement
AAD confirmed the support that the Beneficiary received as a participant of the Connect USVI Stage 1 through the USAC Open Data Tool. We examined the Beneficiary's financial statements and other documentation and determined that the Beneficiary used the award as reimbursement to itself.

DETAILED AUDIT FINDING

Finding: 47 C.F.R § 54.320(b) – Inadequate Documentation / Retention of Documentation - Assets and Expenses

CONDITION

AAD requested a detailed electronic listing of assets (including capital work in progress and expenses) used to restore and improve coverage and service quality of communications networks to levels existing, at a minimum, prior to the 2017 hurricanes Irma and Maria. The Beneficiary delayed providing asset and expense information for testing until the final week of fieldwork, and then only provided a fraction of the information AAD requested.

The Beneficiary provided an extract of a system-generated report with supporting invoices for nine (9) purchases totaling $1.18M that AAD reviewed. Each of these purchases reflected expenditures paid for prior to the Beneficiary receiving the Universal Service Fund (USF) support, which suggests the funds were used for reimbursement purposes, and accounted for less than the total award received ($4.72M). Therefore, the Beneficiary did not provide documentation to support the total value of all expenditures for assets used in restoring the Beneficiary's networks during the audit period, or the portion of Connect USVI Stage 1 funds that directly reimbursed network restoration expenditures. Further, a proper segregation of Beneficiary records by fund sources was not maintained.

AAD reviewed the electronic invoices received, representing 100% of the total value of purchase orders from the Beneficiary system report for testing. The information provided to AAD consisted of system-generated report line items of invoice and purchase order details. No actual invoices, purchase orders, work orders, packing slips, etc. were provided to AAD after numerous requests.

	Amount	% of USF Funding
Total USF Funding	$4,719,926	100.0%
Expenditure List Provided	$1,177,801	24.95%
Expenditures without Adequate Support	$1,177,801	24.95%

FCC Rules require carriers to retain all records required to demonstrate to auditors that the support received was consistent with the Universal Service High Cost program rules for at least ten years, and that this documentation be made available upon request.[2] This requirement is reiterated in FCC 18-57 specifically for this Fund.[3] Through testing of the Beneficiary's compliance with other High Cost Connect USVI Stage 1 program requirements, AAD documented that service was restored to pre-hurricane levels, at a minimum, and the Connect USVI funds appear to have been used for the intended purposes. However, the Beneficiary did not provide any supporting details of the total value of restoration services that AAD requested; thus, AAD concludes the Beneficiary did not maintain documentation to fully support it used the Connect USVI funds only for intended purposes.[4] Further, AAD cannot conclude on the validity of the expenses or whether the USF funds were used appropriately and not to pay off previous debt.

CAUSE

The Beneficiary did not have adequate processes and procedures in place, including Disaster Recovery and/or Business Continuity Planning, to ensure that appropriate records were segregated and retained to support the asset and expense amounts for disaster related circumstances. The Beneficiary stated it "is not aware of any applicable program or other rules that required it to record (Connect USVI Stage 1) expenditures in a specific manner." [5]

EFFECT

The monetary effect and recommended recovery for this finding is $4,719,926. The amount represents the total amount disbursed to the Beneficiary for Connect USVI Stage 1 funding.

RECOMMENDATION

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

The Beneficiary should implement policies and procedures to ensure that it retains adequate records demonstrating its compliance with High Cost program requirements and use of USF support. Document retention should be built into any Disaster Recovery / Business Continuity Planning as standard operating procedures and as preparation for future participation in USF programs, notably PRVI Stage 2[6] funding.

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[2] *See* 47 CFR 54.320(b).

[3] *The Uniendo a Puerto Rico and the Connect USVI Fund et al*, Order and Notice of Proposed Rulemaking, FCC 18-57, para. 21 (May 29, 2018).

[4] *Id*.

[5] Beneficiary response to the Background Questionnaire (BQ #1), 1/18/23

[6] 47 C.F.R. § 54.1515(a) (2020) Disaster preparation and response measures. (a) Each recipient of fixed and mobile support from Stage 2 of the Uniendo a Puerto Rico Fund and the Connect USVI Fund shall create, maintain, and submit to the Wireline Competition Bureau for its review and approval a detailed Disaster Preparation and Response Plan document that describes and commits to the methods and procedures that it will use, during the period in which it receives Stage 2 support, to prepare for and respond to disasters in the Territories, including detailed descriptions of methods and processes to strengthen infrastructure; to ensure network diversity; to ensure backup power; to monitor its network; and to prepare for emergencies.

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

Liberty Mobile USVI Inc. (LMUSVI) is subject to this audit as a result of its acquisition of AT&T Mobility USVI, the sole recipient of the FCC's Connect USVI Stage 1 funding. LMUSVI acknowledges and agrees that high-cost support recipients are required to retain all records required to demonstrate that the support received was consistent with the FCC's rules. Prior to receipt of a draft report, LMUSVI had believed that it had provided sufficient documentation from AT&T to support that AT&T had incurred eligible disaster recovery expenses in the USVI that exceeded the combined amount of its FCC Connect USVI support and insurance proceeds. After LMUSVI received an initial draft of the audit findings that proposed a recovery of all funding on the basis of inadequate supporting records, AAD permitted LMUSVI to supplement the record with additional information from AT&T to attempt to document costs and payments that AAD had been unable to verify during its fieldwork. First, on July 21, 2023, LMUSVI provided the following additional information:

- A list of AT&T disaster recovery expenses of more than $7.9 million that AT&T paid during the relevant period to restore service after the hurricanes in the Virgin Islands.
  - The list is an Excel file named "USVI Disaster Recovery Expense Records 2017-2019."
  - AT&T pulled this data directly from its Financial Data Warehouse (FDW) that aggregates financial transactions from multiple purchasing systems throughout the company.
  - AT&T explained that this data from FDW is filtered for the time period of September 2017 through June 30, 2019 for expenses in the Virgin Islands (company code 2002) for the expense category of natural disaster recovery ("NATDIS").
- Invoices and proof of payments covering more than $6.5 million of those expenses, delivered as follows:
  - An Excel file entitled "Summary of Invoices AT&T USVI Disaster Recovery" itemizes these invoices and payments by purchase order, invoice number, invoice date and payment amount.
  - Copies of traditional invoices from Antilles Power were provided as PDF files.
  - Two other key vendors, MasTec and Ericsson, submitted payment requests to AT&T electronically via AT&T's iSupplier vendor system so there are not "traditional" paper invoices. Instead, we uploaded a Word document with screen shots taken by AT&T from its purchasing system with images for each payment, along with payment dates and payment reference numbers.
  - The expenses that are documented through the above invoice and payment records were yellow highlighted in the USVI Disaster Recovery Expense Records 2017-2019 file.
  - These costs were incurred for the following eligible restoration purposes:
    - Antilles Power restored, fueled, and maintained the generators used to power the USVI network during the extended period of electricity outage in the USVI after the hurricanes.
    - MasTec serviced, restored, and replaced the radio access network (RAN),

which consists of antennas and radios and other hardware used to connect user handsets to the network. MasTec also assisted with the reconstruction of ATT's fiber network and serviced and restored fiber lines and power transmission and distribution to and within the towers and cell sites. MasTec is a minority owned, Fortune 500 construction business that specializes in hurricane disaster recovery and received awards for its key role in recovery in the Virgin Islands after Hurricanes Irma and Maria as the prime contractor for the U.S. Virgin Islands Port Authority and the territory's two major airports. See [https://www.mastec.com/expertise/water-sewer/hurricane- and-disaster-recovery](https://www.mastec.com/expertise/water-sewer/hurricane-and-disaster-recovery)

    - Ericsson, one of the world's oldest and leading telecommunications companies, provided the same type of disaster recovery and restoration work as MasTec at different locations and/or times in the Virgin Islands.

On August 24, in response to further AAD questions and requests, LMUSVI provided the following additional information:

- An Excel file entitled "USVI Disaster Recovery Expense Records 2017-2019 082323" that corrects a clerical error from the prior version of this file that had made it difficult to reconcile, in particular with respect to MasTec Invoice ID 259255705.
    - The complete source data file for this Excel document is located in its third tab.
    - As noted above, AT&T pulled this data directly from its Financial Data Warehouse (FDW) that aggregates financial transactions from multiple purchasing systems throughout the company, and AT&T explained that this data from FDW is filtered for the time period of September 2017 through June 30, 2019 for expenses in the Virgin Islands (company code 2002) for the expense category of natural disaster recovery ("NATDIS").
- An Excel file entitled "Summary of Invoices AT&T Disaster Recovery 082323" that replaces the prior version of this file with the only change being the addition of MasTec Invoice ID 259255705.
    - The invoices listed in this file are yellow highlighted in the USVI Disaster Recovery Expense Records 2017-2019 082323 file.
- A Word file entitled "MASTEC payment screenshots PO 14324939 082323" that includes screenshots from AT&T's iSupplier vendor system with images that show AT&T's payment for each of the eight invoices under MasTec Purchase Order 14324939 listed in the above summary, including payment of $352,365 for the requested invoice 872772 (Invoice ID 259255705) at the end of the document.
- A Word file entitled "ANTILLES POWER DEPOT Screenshots" that includes screenshots from AT&T's iSupplier vendor system with images that show AT&T's payment of each of the 12 invoices from Antilles Power that are listed in the above summary.
- A PDF file entitled MasTec Invoices that includes each of the eight above-referenced MasTec invoices in traditional format.
- A PDF file entitled MasTec PO 14324939 that is a copy of that purchase order.
- A PDF file entitled Ericsson PO 14293413 that is a copy of that purchase order.

In the aggregate, LMUSVI has provided sufficient documentation to show that all Connect USVI Stage 1 funding was used for eligible expenses. USAC should therefore revise its audit finding to eliminate the proposed recovery of funding.

While the records that LMUSVI provided to USAC were sufficient to demonstrate that the support received was consistent with the FCC's rules, the company will take under advisement USAC's additional recommendations posted on its website and in the audit report to better facilitate future reviews.

AAD REPSONSE

The Beneficiary disputed the finding and provided additional documentation during the Beneficiary response process not made available during the course of the audit. AAD has reviewed the additional supporting documentation provided and has determined that the documents support the expenditures related to the $4,719,926 of the Connect USVI funds. AAD is, therefore, reducing the recommended recovery amount to zero and removing the recommendation to recover funds. However, AAD maintains the recommendation for better recordkeeping to segregate program-specific funds received. See adjustments below.

High Cost Support	Monetary Effect	Recommended Recovery
Connect USVI Fund – Stage 1	$0	$0

CRITERIA

47 C.F.R. § 54.320(b) (2017)

> **Compliance and recordkeeping for the high-cost program.** (b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the Universal Service High Cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.

FCC 18-57, para. 21

> Carriers must retain for at least ten years the records required to demonstrate that their use of this support complied with this Order and other Commission rules. We direct USAC to initiate audits of Stage 1 disbursements in conjunction with its 2018 audits.

This concludes the report.

Attachment K

HC2022LR010

Available For Public Use

East Ascension Telephone Company

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

USAC Audit No. HC2022LR010

Prepared For:

Universal Service Administrative Company

April 28, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

April 28, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of East Ascension Telephone Company (Beneficiary or EATEL), study area code (SAC) **270429** for disbursements made from the federal Universal High-Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from April 5, 2022, to April 28, 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 our findings and conclusions based on the audit objectives.

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
April 28, 2023

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
Finding #1: 47 C.F.R. § 32.2000(g)(2) – **Inaccurate Depreciation Expense and Accumulated Depreciation Calculation** The Beneficiary reported incorrect depreciation expense amounts in its reporting for High Cost program purposes.	$18,589	$16,832	$0	$35,421	$35,421

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 270429, 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)	CAF BLS (B)	HCL (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	-	$18,589	$16,832	$35,421	N/A
Total	**-**	**$18,589**	**$16,832**	**$35,421**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Louisiana. The Beneficiary also provides other services including internet, phone service, TV, and VoIP services. The Beneficiary was founded in 1935, is a wholly owned subsidiary of Eatelcorp, L.L.C., and has about 17,000 subscribers during the audit year of 2018. Eatelcorp L.L.C., also known as REV, was formed by two other companies of RTC and Vision Communications; EATEL acquired Vision Communications in 2011 and later in 2019 RTC and EATEL merged to become one of the largest local providers in Louisiana.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High-Cost Support	Date Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$3,022,962
HCL	2018	2020	$330,587
CAF ICC	2017-2019	2020	$224,106
		Total	**$3,577,655**

PROCEDURES
We performed the following procedures:

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

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

C. Fixed Assets
We obtained and examined the Beneficiary's continuing property records (CPRs) work orders, invoices, and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances as well as accurate 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 (GL) details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

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

F. **Affiliate Transactions**

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

G. **Cost Allocation**

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization, and related assets and expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High-Cost program purposes. CLA determined that the Beneficiary's calculation of depreciation expense was not compliant with 47 C.F.R. § 32.2000(g)(2). FCC rules specify that a Beneficiary's monthly depreciation is calculated by utilizing the monthly average balance of the associated category of plant for calculation of depreciation and applying one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant.[1] The average monthly balance shall be computed using the balance as of the first and last days of the relevant month.[2] In addition, the carrier did not record the additions of the assets in the GL timely for account 223230. Even though the carrier did not record the additions of asset in the GL timely, CLA took into consideration the date in which the assets were actually placed in service. However, due to the lack of supporting documents, CLA could not verify the accuracy of some of the assets in-service dates. In those cases, CLA used the balances and dates recorded in GL.

Based on the GL's activities in October - December 2018, the asset addition in account 223230 was $1,333,678.93. However, based on EATEL's schedule, there were $465,890 assets placed in service in the same period. The following table illustrates the difference in asset addition activities due to lack of supporting documentation.

Month	Account 223230 Asset Addition Based on GL (A)	Account 223230 Asset Addition Based on EATEL's Schedule (B)	Difference (A – B)
October Activities	27,444	194,898	(167,454)
November Activities	0	124,583	(124,583)
December Activities	1,306,235	146,409	1,159,826
Total Difference	**1,333,679**	**465,890**	**867,789**

CLA recalculated depreciation expense[3] for the Beneficiary's Land and Supports Assets (Account 2110), COE Switching assets (Account 2210), COE Transmission (Account 2230), and Cable & Wire Facilities (C&WF) (Account 2410) based on averaging the beginning of the month and the ending of the month general ledger balances for each asset account. For the assets that were not timely recorded in the GL, CLA obtained the assets put-in-service schedule to recalculate the depreciation expenses and corresponding accumulated depreciation. Material variances were identified and thus a 12-month re-calculation of the account was performed. The differences between the recalculated twelve months of depreciation expense using the average of the beginning and ending balance of each month and the Beneficiary's amount submitted for High-Cost program support are presented below:

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

[2] *Id.*

[3] The assets balance at the end of the year were not impacted due to the assets addition differences between the GL and the Beneficiary's schedule during the year but agreed to the General Ledger at the end of the year.

Account	Part 64 Reported Amount (A)	(Understated) / Overstated Amount (B)	Part 64 Revised Amount (A – B)
Accumulated Depreciation (Account ACCT 3100_2100 – Land and Support Assets)	12,209,950	(39,061)	12,249,011
Depreciation Expense (Account ACCT 6560_2110– Land and Support Assets)	310,710	(39,061)	349,771
Accumulated Depreciation (Account DL270_3100_2230 – COE Transmission)	44,047,112	119,841	43,927,271
Depreciation Expense (Account DL520_6560_2230 – COE Transmission)	2,824,928	119,841	2,705,087

CAUSE
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate depreciation expense and accumulated depreciation.

EFFECT
CLA calculated the monetary effects of this finding by adding the amount of $39,061 to the Land and Support Assets Accumulated Depreciation and Depreciation Expense accounts in the Beneficiaries High Cost program filings. In addition, we subtracted the amount of $119,841 from the Depreciation Expense and Accumulated Depreciation accounts of the COE Switching and COE Transmission in Beneficiaries High Cost program filings.

The monetary impact of this finding relative to disbursements made from High-Cost Program funds for the twelve-month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$18,589
HCL	$16,832
CAF ICC	-
Total	**$35,421**

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 properly calculate depreciation expense and accumulated depreciation reported for High-Cost Program purposes. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

East Ascension Telephone (EATEL) concurs that the depreciation calculations were not in compliance with Rule 47 C.F.R. § 32.2000(g)(2), EATEL discovered the error as a result of a PQA assessment of the High Cost Program (Case ID: HC-2018-02-Case-20.) in September 2019. EATEL corrected the depreciation formulas on a prospective basis beginning in 2020.

EATEL disputes the finding relating to the timeliness of recording the assets in the general ledger. EATEL accumulates costs for telephone plant in service in a Telephone Plant Under Construction account. The costs are moved to the Telephone Plant In Service once all costs have been received and recorded, which in many cases is not the same month that the asset is placed in service. Internal financial statements are prepared monthly based on a depreciation estimate of the cost moved during the month. To comply with GAAP and begin depreciation when the asset is placed in service, EATEL trues up depreciation expense of COE Transmission Equipment quarterly based on service orders closed during the quarter. Depreciation is recalculated and an entry is made in the current open period. EATEL does not modify previously prepared internal monthly statements. EATEL's external auditors have reviewed this practice and deem this in compliance with GAAP.

CLA agreed with EATEL's total asset additions for the year; however, used the GL date instead of the "in-Service" date to calculate depreciation expense. EATEL feels that CLA was provided with adequate support for their depreciation calculation. EATEL would also like to review the [sic] for support regarding the HCLS impact calculation.

CLA RESPONSE

CLA has communicated with EATEL several times regarding the supporting documents for the period in which the assets were placed in service. CLA also took the assets' put-in-service schedule into consideration and adjusted the additional assets' balances when recalculating the depreciation expense. However, upon reviewing the assets put-in-service schedule, we noted that the documentation did not fully support the date when the assets were placed in service, and there still were discrepancies between the depreciation schedule provided by EATEL and CLA's calculation. CLA re-calculated the depreciation expenses based on the most accurate data from the GL in conjunction with the adjustments from EATEL's assets put-in-service schedule.

When calculating the depreciation expense for the account 2320-223230, we noted the difference in the expense based on the amount posted on GL and the in-service information provided by EATEL subsequently. The difference is reflected in the following table.

Account number	**Depreciation Expense Based on GL** (A)	**Depreciation Expense Based on Adjustment** (B)	**Difference** (A – B)
2320-223230	$2,676,802.80	$1,545,726.57	$1,131,076.23

CLA acknowledges EATEL's quarterly depreciation expense true up of the COE Transmission Equipment based on service orders closed during the quarter. However, the variances between East Ascension's depreciation calculation and CLA's depreciation is mainly due to the lack of documentation for account 2320-223230 as mentioned above. CLA has held a meeting to explain to EATEL regarding the HCLS impact calculation.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(2018)	"(g) Depreciation accounting (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."

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
West Kentucky Rural Telephone Cooperative Corp, Inc. **Attachment L**	5	• No significant findings.	$9,602,620	$184,294	$184,294	Partial
Perry-Spencer Rural **Attachment M**	2	• No significant findings.	$6,830,173	($50,913)	$0	N
Stayton Cooperative Telephone Co. **Attachment N**	2	• No significant findings.	$3,939,862	$9,884	$9,884	Partial
ENMR Telephone Cooperative – NM **Attachment O**	1	• No significant findings.	$23,040,815	$72,519	$72,519	N
Valley Telephone Cooperative, Inc. **Attachment P**	5	• <u>Inaccurate Depreciation Calculation.</u> The Beneficiary used an alternative unapproved	$12,194,202	($703,990)	$0	Partial

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
		depreciation methodology called Vintage Year Mass Asset methodology rather than a Mass Asset methodology.				
Harrisonville Telephone Company **Attachment Q**	3	• Inaccurate Depreciation Calculation. The Beneficiary calculated the total depreciation on an annual basis instead of an average monthly basis.	$4,389,971	($914,157)	$0	Partial
Total	**18**		**$59,997,643**	**($1,402,363)**	**$266,697**	

Attachment L

HC2022LR029

West Kentucky Rural Telephone Cooperative Corp, Inc.

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

USAC Audit No. HC2022LR029

Prepared For:

Universal Service Administrative Company

January 31, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

January 31, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of West Kentucky Rural Telephone Cooperative Corp, Inc (Beneficiary), study area code **260421** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 10, 2022, to January 31, 2023.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
January 31, 2023

AUDIT RESULTS AND RECOVERY ACTION

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

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
Finding #1: 47 C.F.R. § 64.901(b)(4) (2018) – Improper Allocation and Inclusion of Non-Regulated Assets – The Beneficiary did not accurately allocate assets and remove nonregulated assets from its High Cost Program filings.	$61,025	$121,391	$0	$182,416	$182,416
Finding #2: 47 C.F.R. § 64.901(b)(3)(ii), § 32.27 (2018) – Improper Allocation Methodology – Affiliated Transactions. The Beneficiary allocated administrative charges based on factors that were not cost causative.	$24,446	$0	$0	$24,446	$24,446
Finding #3: 47 C.F.R. § 54.320(b) (2018) – Lack of/Inadequate Documentation: Expenses. The Beneficiary did not provide documentation to substantiate the value of expenses transactions and applied allocations.	$1,642	$5,845	$0	$7,487	$7,487
Finding #4: 47 C.F.R. §§ 64.901(b)(3) (2018) – Inaccurate Cost Study Adjustments: The Beneficiary utilized incorrect allocation factors to remove non-regulated costs.	$8,291	$1,745	$0	$10,036	$10,036
Finding #5: 47 C.F.R. § 32.2000(g)(2) (2018) – Inaccurate Depreciation of Assets	($12,551)	($27,540)	$0	($40,091)[1]	$0
Total Monetary Effect	**$82,853**	**$101,441**	**$0**	**$184,294**	**$224,385**

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

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 260421, for the High Cost Program support in the amount noted in the chart below.

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

	CAF BLS (A)	**HCL (B)**	**CAF ICC (C)**	**USAC Recovery Action (A)+(B)+(C)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	$61,025	$121,391	$0	$182,416	N/A
Finding #2	$24,446	$0	$0	$24,446	N/A
Finding #3	$1,642	$5,845	$0	$7,487	N/A
Finding #4	$8,291	$1,745	$0	$10,036	N/A
Finding #5	($12,551)	($27,540)	$0	($40,091)[2]	N/A
Total	**$82,853**	**$101,441**	**$0**	**$184,294**	

[2] The High Cost program nets all finding monetary effect amounts at the audit level.

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 19,000 subscribers in the western region of the state of Kentucky. West Kentucky also has a regulated portion, Yorkville, that has its own individual study area code for which a portion of the management fees from Telcom Management Services (TMS) are removed. The Beneficiary is the parent company of two affiliates: (TMS) (79% ownership) and Synergy Technology Partners (Synergy) (100% ownership). Ardmore Telephone Company is a fully owned subsidiary of Synergy. The Beneficiary and its affiliated entities provide services including broadband, video, and security services.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$5,528,352
HCL	2018-2019	2020	$2,904,250
CAF ICC	2017-2019	2020	$1,170,018
		Total	**$9,602,620**

PROCEDURES
We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Fixed Assets

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

D. Operating Expenses

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

E. Revenues

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

F. Affiliate Transactions

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

G. Cost Allocation

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 64.901(b)(4) – Improper Allocation and Inclusion of Non-Regulated Costs: Assets

CONDITION

CLA obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) route allocation to determine whether the allocation of the investments was assigned to the proper category and accurately reported for Beneficiary High Cost Program purposes. Based on examination of the Beneficiary's CWF route allocation, CLA identified a non-regulated cost study adjustment of $387,440 for the removal of Internet/CATV fiber from study. A review of the supporting documentation for the non-regulated adjustment determined that the allocation of fiber was inaccurate due to spares being directly allocated to CWF Category 1, instead of being allocated over all in use categories. CLA recalculated the non-regulated adjustment by allocating spare fibers to each category of lit fiber based on ratio of each category to the total lit fiber and recalculated the route allocation. The recalculation has been summarized in the tables below:

Account	Beneficiary's Plant Cost Study Adjustment #3 (A)	Recalculated (B)	Variance (A-B)
Non-regulated investment (Acct 2410)	$387,440	$634,128	($246,688)
Non-regulated for Accumulated Depreciation (Acct 3100-2410)	$124,176	$204,389	($80,213)
Non-regulated CWF Depreciation Expense (Acct 6561-2410)	$19,627	$32,113	($12,486)
Non-regulated CWF Expenses (Acct 6410)	$11,746	$20,209	($8,463)
Total	**$542,989**	**$890,839**	**($347,850)**

Acct 2410 By Category	Beneficiary Submitted Category Balance (A)	Adjustment (B)	Recalculated Category Balance (A+B)
Cat 1 Exchange Line	$62,996,300	($1,122,105)	$61,874,195
Cat 2.1 Exchange Trunk	$408,344	$771,326	$1,179,670
Cat 2.4 Exchange Trunk - Wideband	$385,704	$3,329	$389,033
Category 3 Inter-Exchange	$97,266	$100,762	$198,028
Total	**$63,887,614**	**($246,688)**	**$63,640,926**

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

CAUSE

FCC rules require carriers who separate their regulated costs from nonregulated costs to use the attributable cost method of cost allocation for such purpose.[3] 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.[4] The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly allocate spares and exclude non-regulated amounts from the amounts reported for High Cost Program purposes.

EFFECT

CLA calculated the monetary effect by subtracting cost improperly allocated to CWF Category 1 ($1,122,105), adding the cost to the proper Category 2 ($771,326 and $3,329) and Category 3 ($100,762), and removing the additional non-regulated costs ($246,688) determined. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$61,025
HCL	$121,391
CAF ICC	$0
Total	**$182,416**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. The Beneficiary must maintain asset categorization schedules that includes documenting assets by the proper category and to demonstrate compliance with the rules. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary will update and maintain documentation for asset categorization schedules, submitted for High Cost program purposes, in accordance 47 C.F.R. § 64.901(b).

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

BENEFICIARY RESPONSE

"The Beneficiary acknowledges that spare fiber was initially assigned to Category 1 in the cable and wire facilities analysis, however, a portion of Category 1 is then allocated to Category 2.2 for data only loop and Category 2.4 for wideband loop, and therefore spares are not directly allocated to only Category 1. The beneficiary's spare fiber is reserved and intended for current and future broadband (including Fiber to the Home) customers so that the company can meet broadband buildout obligations and can reasonably expect to be able to serve the rapidly growing broadband needs of its customers, present and future. In addition, the beneficiary continues to convert customers to broadband only at a rapid pace, which reduces the need for additional capacity for voice services such as Toll and EAS. In the last 5 years, the Beneficiary's voice customers

[3] *See* 47 CFR 64.901(a) (2018).

[4] *See* 47 CFR 64.901(b)(4) (2018).

declined 40%, and today 50% of their customer base subscribes to broadband only service. Therefore, the Beneficiary does not agree with the large assignment of spare fiber to voice services causing the categories for Toll and EAS voice services to increase 172% when voice services are declining.

In addition, the $387,440 adjustment is to remove leased fibers from the cost study. The Beneficiary does not agree with the method of allocation of spare to leased fiber. The beneficiary charges the lessee per fiber being used, not for additional spare fiber. The specific fibers being leased are removed from the cost study because the Beneficiary is compensated through the lease arrangement. On certain routes CLA is suggesting that an additional two to three times the number of actual leased fibers be removed as leased. The beneficiary does not believe that this is a reasonable approach, as the lease customer is only receiving the use of the specific fibers being leased (and no others), and the amount that they have been charged represents only costs associated with those leased fibers, along with a full distribution of overhead costs for a fully distributed cost to be recovered via the lease. The beneficiary believes that only the pro-rate share (using actual fibers leased) of the cost of construction should be assigned to the leased category, prior to the remainder of the fully distributed costs being determined. The remaining fibers are reserved for use by the Beneficiary. Please note that Part 64 of the FCC rules discuss a three year forecast of regulated vs. non regulated use be employed in the allocation of fiber facilities. The beneficiary does not offer, nor does it plan to offer leased dark fibers as a service that is offered to the general public, and as such, does not intend to utilize spare fibers for leased services.

FCC rule 36.153(a)(1)(i)(A) states:

(i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows:

> (A) By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. The corresponding percentages of use, or reservation, are applied to the cost of the section of cable, i.e., sheath meters times unit cost per meter, to obtain the cost assignable to each category.

As shown above, the FCC does not require allocations be conducted solely on fibers in use and does discuss the concept of fibers reserved by the beneficiary. The concept of reserving fibers for a particular category does not appear to conflict with Part 64.901(a)(2) which includes: "Costs shall be directly assigned to either regulated or nonregulated activities whenever possible."

In addition, NECA advises its member companies in Cost Guideline 4.23 that FCC rules acknowledge that certain CWF investment can be reserved and categorized according to assignment records, which supports the assignment of fiber based on intended use. The allocation performed by CLA does not reflect the intended use of the fiber. Therefore, the Beneficiary does not agree that all spare fiber should be allocated based on fibers in use since usage is in some instances capped on a per fiber basis or is decreasing as discussed above."

CLA RESPONSE

Outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[5] As such, the "Spare" cable and wire facilities should have been

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[5] See 47 C.F.R. § 64.901(b) (2018).

allocated based on usage within each section analysis of the cable and wire study as part of the Part 64 non-regulated allocation prior to the Part 36 separations the Beneficiary is referencing from 47 C.F.R. § 36.153(a)(1)(i)(A) in their response to this finding.

The Beneficiary states in its response, "The Beneficiary acknowledges that spare fiber was initially assigned to Category 1 in the cable and wire facilities analysis; however, a portion of Category 1 is then allocated to Category 2.2 for data only loop and Category 2.4 for wideband loop, and therefore spares are not directly allocated to only Category 1." The Beneficiary does not however state that the "Spare" fiber is allocated to the in use non-regulated categories identified in their cable and wire study as required by 47 C.F.R. § 64.901(b). As such, it is verified that the Beneficiary did properly allocate spares to "all" in use categories as required prior to the Part 36 separations. Therefore, 47 C.F.R. § 36.153(a)(1)(i)(A) does not apply in this case. CLA's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 64.901(b)(3)(ii) and § 32.27 (2018) – Improper Allocation Methodology – Affiliated Transactions

CONDITION

CLA obtained and examined the Beneficiary's general ledger, cost study adjustments documentation, including documentation to support the Beneficiary's cost study allocation factors, service charge schedule, lease agreements, consolidated balance sheet and income statement to determine whether the Beneficiary's affiliate transactions were accurately calculated for High Cost program purposes for the twelve months ending December 31, 2018. CLA selected a non-statistical sample of six affiliate expense transactions totaling to $156,718 for testing.

The Beneficiary is the parent company of two affiliates, TMS (79% ownership) and Synergy (100% ownership). Ardmore Telephone Company is a fully owned subsidiary of Synergy. TMS exists solely to provide management services to the Beneficiary, Yorkville (regulated part of Beneficiary with separate study area code), and Ardmore. Per review, the allocation support provided shows the Management Service Fee costs from TMS to the Beneficiary and affiliates were allocated based on four factors: total employees, total access lines, total plant in service, and total revenue. Costs to be allocated by these factors were initially split 30% (Access Lines), 30% (Total Plant in Service), 30% (Total Revenues) and 10% (Employee Count). Factors for total access lines, total plant in service, and total revenue were equally weighted while a minimal weight was assigned to the factor of total employees. The rationale, explained by the Beneficiary, for the weighting was due to management services being primarily driven by access lines, expenses, and revenues. Beyond the explanation, the Beneficiary did not provide source data or calculations to substantiate the 30/30/30/10 allocation. Pursuant to 47 C.F.R. § 64.901(b)(3)(ii), beneficiaries must allocate indirect costs using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is unavailable.[6] It also states, 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.[7] Due to the weighting being arbitrarily assigned without a reasonable, documentable basis and revenue being a non-cost-causative method, the utilized allocation percentages were improper. As there is no cost causative linkage, CLA found both the Weighting and Total Revenues methodologies to be unacceptable to use for allocation purposes, and therefore performed a reallocation of the management fee's cost based on access lines.

In addition to the improper allocation methodology applied to the management fees, CLA also noted that the costs allocated had not been updated to reflect 2018 TMS costs. CLA requested and received the TMS 2018 financials in excel which were tied to the audited consolidated financials without material exception. CLA totaled cost to be allocated, added a rate of return of 10.125% and allocated based on reported access lines for the Beneficiary, Yorkville and Ardmore. As such, both the allocation of TMS costs to the Beneficiary and the adjustment to remove the port related to Yorkville were as follows:

Allocated TMS Cost to Beneficiary			
Account	**Submitted West Kentucky & Yorkville Allocation**	**Adjustment**	**Verified West Kentucky and Yorkville Allocation**
6613	$177,222	($51,700)	$125,522
6623	$346,188	($127,596)	$218,592

[6] See 47 C.F.R. § 64.901(b)(3)(ii) (2018).

[7] *Id.*

Allocated TMS Cost to Beneficiary			
Account	Submitted West Kentucky & Yorkville Allocation	Adjustment	Verified West Kentucky and Yorkville Allocation
6711	$551,532	$125,204	$676,736
6720	$257,380	($82,347)	$175,033
6723	$147,406	$14,607	$162,013

Adjustments to Remove Costs related to Yorkville			
Account	Submitted Yorkville Cost Removed	Adjustment	CLA Verified Yorkville Costs to Remove
6613	$13,313	($4,002)	$9,311
6623	$0	$16,214	$16,214
6711	$41,431	$8,766	$50,197
6720	$26,006	($13,023)	$12,983
6723	$30,408	($18,391)	$12,017

CLA concludes that management service charges were improperly and inaccurately calculated for current year of 2018.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that factors used to allocate rate base accounts for intercompany and regulated and nonregulated transactions are based on updated information, cost causative factors, and accurate calculations. The Beneficiary acknowledges that the use of revenue as one of the allocation methodologies is not cost causative.[8]

EFFECT

CLA calculated the monetary effect by subtracting and adding the calculated adjustment amounts, based on the revised allocation, to the Beneficiary's submitted allocated costs. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$24,446
HCL	$0[9]
CAF ICC	-
Total	**$24,446**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly calculate affiliate allocated costs in accordance with FCC rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure that allocations are developed on a cost-causative basis.

[8] Per Summary of Exception response received from Beneficiary on April 20, 2023.

[9] The Beneficiary is over the Corporate Operations limit.

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

BENEFICIARY RESPONSE

"The Beneficiary agrees that the TMS allocated costs were not updated to reflect 2018 costs. However, the Beneficiary disagrees that the four methods used for allocation between entities are unacceptable. The Beneficiary believes that the four methods used for allocation; number of employees, plant in service costs, revenues, and access lines are appropriate allocation methods for management services rather than using access lines alone. These allocation methods when combined with one another represent the size, scope, and relative utilization of overheads. An entity with more employees, a larger network, more revenue, and more customers requires more management oversight, and thus a higher allocation of management services."

CLA RESPONSE

Pursuant to 47 C.F.R. § 64.901(b)(3)(ii), Beneficiaries must allocate indirect costs using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is unavailable. It also states, 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. CLA finds the Beneficiary method to be unacceptable due to the weighting being arbitrarily assigned without a reasonable, documentable basis and revenue being a non-cost-causative method without cost causative linkage. CLA's position remains unchanged.

Finding #3: 47 C.F.R. § 54.320(b) (2018)– Lack of/Inadequate Documentation: Expenses

CONDITION

CLA obtained and examined the general ledger and cost study balances to determine whether the Beneficiary reported accurate expense balances, including a non-statistical sample of 22 expense transactions totaling $257,067 for High Cost program purposes based on high dollar value and proportional to the investment impact on High Cost support. For 3 of the 22 samples, the Beneficiary did not provide adequate support for expenses as follows:

- The Beneficiary did not provide documentation to support two out of the 22 total expense samples book to account 6720 as detailed below:

Sample #	Total Value of Sample	Unsupported Amount
18	$10,987	$10,987
22	$37,000	$37,000

- For the annual poles rental accrual sample (Acct 6410), CLA determined it to be an estimated accrued amount, and that the Beneficiary had booked accrued amounts for all 12 months of the data period (Monthly accrual was for all pole rental contracts). As such, CLA reconciled the actual for the entire documentation period, for all pole rental contracts) to the total submitted monthly accrued amounts to verify that the total accrued had been trued up to actual. The result was unsupported over-accrued expense totaling $10,946.

CLA summarized the resulting overstated balances in the table below:

Account	Part 64 Cost Study As Reported A	Overstatement B	Part 64 Cost Study Recalculated A+B
CWF Expense (6410)	$1,966,072	$(10,880)[10]	$1,955,192
General Admin. Expense (Account 6720)	$1,629,633	$(47,987)	$1,581,646

CAUSE

The Beneficiary did not have an adequate system in place to ensure the proper retention of records to demonstrate transactions were recorded in the proper amount and to the proper general ledger account. FCC rules require eligible telecommunications carriers to retain all records needed to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules for ten years from the receipt of funding.[11] Per the summary of exceptions response, the Beneficiary acknowledges that the three samples noted were inadvertently included.[12]

[10] Total of $10,946 had non-allow % of .6066% previously applied taken into account to derive adjustments amount of $10,880.

[11] See 47 C.F.R § 54.320(b) (2018).

[12] Per Summary of Exception response received from Beneficiary on April 20, 2023.

EFFECT

CLA calculated the monetary effect by subtracting the inadequately supported expense of $10,880 and $47,987 from the submitted Beneficiary costs for Part 32 Accounts 6410 and 6720 respectively. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$1,642
HCL	$5,845
CAF ICC	$0
Total	**$7,487**

RECOMMENDATION

CLA recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement an adequate system to ensure proper retention of records and true-up accrued expenses to demonstrate transactions were recorded in the proper amount and to the proper general ledger account reported for High Cost program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure proper retention of records and proper accounting of accrued expenses for costs submitted for High Cost purposes.

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

BENEFICIARY RESPONSE

"The Beneficiary acknowledges that expense samples 18 and 22 should be excluded for USF purposes. The Beneficiary also agrees that the pole rental expense was accidentally over-accrued during 2018."

Finding #4: 47 C.F.R. §64.901(b): Inaccurate Cost Study Adjustments – Assets and Expenses

CONDITION

CLA obtained and examined the Beneficiary's supporting documentation for 17 out of a population of 33 cost study adjustments for its December 31, 2018, High Cost data filing to determine whether the Beneficiary had correctly calculated its cost study adjustments for High Cost program purposes. As summarized below, CLA determined that for 2 of the sampled adjustments the Beneficiary made errors in calculations used to allocate cost study adjustments for certain asset (and the associated reserve and depreciation accounts) and expense accounts for its December 31, 2018, High Cost data filing:

- For the allocation of General Support Assets (GSA), the Beneficiary improperly utilized revenue, considered to be non-cost causative, to develop a non-regulated allocation factor to be applied to GSA's asset accounts as well as their related reserve and expense accounts. In addition, the Beneficiary applied what it calculated as the regulated allocation % in the calculation of the non-regulated adjustment. Per 47 C.F.R. §64.901(b), 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.[13] CLA does not find revenue to have cost-causative linkage to General Support Assets. CLA revised the non-regulated allocation factor by utilizing access line counts, to be included with the other cost causative factors, to develop proper blended factors and applying to the revised factors to GSA related accounts.

Non-Regulated Allocation Percentages		
Accounts	**Original Percentage**	**CLA Revised Percentage**
2111	9.11%	9.62%
2112, 2114, 2121,2122,2123, 2124, 1410, 3112, 3114, 3121, 3122, 3123, 3124, 6112, 6114, 6122, 6123, 6124, 6561, 7240	11.36%	12%
6121, 7240	6.68%	7.06%

The revised allocation factors resulted in the following:

Accounts	(A) Submitted Non-Regulated Adjustment	(B) Verified Non-Regulated Adjustment	(C) = (A) – (B) Variance/Additional Non-Regulated to be Removed
Account 1410 Other Noncurrent Assets	$231,176	$244,260	($13,084)
Account 2110 Land & Support Assets	$1,533,671	$1,620,474	($86,803)
Acct 3100_2100 Accumulated Depreciation – Land & Support Assets	$923,643	$975,919	($52,276)

[13] See 47 C.F.R. § 64.901(b) (2018).

Accounts	(A) Submitted Non-Regulated Adjustment	(B) Verified Non-Regulated Adjustment	(C) = (A) – (B) Variance/Additional Non-Regulated to be Removed
Acct 6110 Network Support Expense	$11,452	$12,101	($649)
Acct 6120 General Support Expense	$32,692	$34,543	($1,851)
Acct 6560_2100 Depreciation Expense - Support Assets	$63,697	$67,302	($3,605)
Acct 7240 – Other Operating Taxes	$60,288	$63,700	($3,412)
Total	**$2,856,619**	**$3,018,299**	**($161,680)**

- The Beneficiary improperly utilized revenue, considered to be non-cost causative to develop a non-regulated allocation factor to be applied to marketing. Allocation of costs should be performed utilizing the factors that are related or feed into the generation of the costs such as number of customers, employee time spent on tasks and access lines, not the resulting revenue. As access lines are considered to be cost causative, CLA revised the non-regulated allocation by utilizing access line counts to develop a proper factor and applying to the applicable marketing costs. The recalculation of the allocation factor revised it from 54.39% to 56.77%, and resulted in the following:

Account	Submitted	Verified	Variance/Additional Non-Reg to be Removed
Acct 6610 Marketing	$387,832	$404,807	$16,975
Acct 6611 Sales	$207,439	$216,518	$9,079
Total Additional Non-Reg	**$595,271**	**$621,325**	**$26,054**

Because the Beneficiary did not correctly calculate cost study adjustments, CLA concludes that the balances reported for High Cost program purposes were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to ensure it reports the correct amount for High Cost Program purposes. Per Beneficiary's summary of exceptions response, the marketing allocation in the 2018 cost study was developed using a weighted average allocation based on revenue and customer counts as these factors measured services being provided and advertised at the time.[14]

EFFECT

CLA calculated the monetary effect for this finding by adding the additional non-regulated costs (GSA $161,680 and Marketing $26,054) to the submitted non-regulated cost study adjustment amounts for GSA ($2,856,619) and Marketing costs ($595,271).

[14] Per Summary of Exception response received from Beneficiary on April 20, 2023.

The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$8,291
HCL	$1,745
CAF ICC	$0
Total	**$10,036**

RECOMMENDATION
CLA recommends that USAC Management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly calculate non-regulated allocation factors and subsequent non-regulated cost study adjustments to ensure only eligible costs are reported for High Cost program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure cost causative allocation factors are applied to costs submitted for High Cost purposes.

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

BENEFICIARY RESPONSE

"The marketing allocation in the 2018 cost study was developed using a weighted average allocation of revenue and customer counts as these factors measured services being provided and advertised at the time. The Beneficiary disagrees that the use of revenue as an allocation method for marketing expenses is not appropriate. Marketing expenses are apportioned among jurisdictions using billed revenues per FCC rule 36.372. NECA Cost Guideline 2.13 further discusses the use of billed revenue for apportionment of marketing expenses. Therefore, the Beneficiary believes that revenue combined with customer counts are appropriate methods of allocation for marketing expenses."

CLA RESPONSE

As previously noted in this finding, pursuant to 47 C.F.R. § 64.901(b)(3)(ii), beneficiaries must allocate indirect costs using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is unavailable.[15] It also states, 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.[16] While 47 C.F.R. § 36.372 relates to the jurisdiction allocation for regulated activities; this finding relates to allocating or removing non-regulated activities, which links to the cost-causative language as required. CLA finds the Beneficiary's method to be unacceptable due to revenue being a non-cost-causative method without cost causative linkage. As previously stated, allocation of costs should be performed utilizing the factors that are related or feed into the generation of the costs such as number of customers, employee time spent on tasks and access lines, not the resulting revenue. CLA's position remains unchanged.

[15] See 47 C.F.R. § 64.901(b)(3)(ii) (2018).
[16] *Id.*

Finding #5: 47 C.F.R. § 32.2000(g)(2)(iii) (2018): Inaccurate Depreciation of Assets

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High Cost program purposes. Per the Beneficiary, they utilize Straight-Line Method, Broad Group Procedure, and the Whole Life Technique to calculate depreciation.[17] FCC rules require 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.[18] CLA determined that the Beneficiary's Account 2410 depreciation calculation for 2018 was inaccurate.

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

Account	As reported in Part 64 Cost Study (A)	Difference (B)	CLA Audited Balance (A+B)
Accumulated Depreciation (Account 2410 – Cable and Wire Facilities)	$17,364,766	$57,032	$ 17,421,798
Depreciation Expense (Account 6561 – Cable and Wire Facilities)	$3,235,391	$57,032	$ 3,292,423

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate depreciation expense for High Cost Program purposes.

EFFECT

CLA calculated the monetary effect by adding the under depreciated amount of $57,032 to the submitted Accumulated Depreciation and Depreciation Expense for Cable and Wire Facilities in the High Cost filing. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($12,551)
HCL	($27,540)
CAF ICC	$0
Total	**$(40,091)**[19]

[17] Per background questionnaire prepared by Beneficiary, received April 1, 2022.
[18] *See* 47 CFR 32.2000(g)(2)(iii) (2018).
[19] The High Cost program does not pay additional support in the event of a finding resulting in an underpayment.

RECOMMENDATION

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

The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will implement and maintain in its asset module the required depreciation calculation methodology of multiplying the self-approved asset depreciation rate by the average of the monthly beginning and ending asset balances at the mass asset level. In addition, Beneficiary may learn more about documentation and reporting requirements on USAC's website at:
https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

"The Beneficiary acknowledges and agrees that the depreciation expense was understated for account 2423.1 during 2018. The Beneficiary also seeks clarification regarding the audit results and recovery action chart at the beginning of this report. Although this finding results in an underpayment of support, typically findings resulting in an underpayment are netted with the findings that have an overpayment when determining the recommended recovery. This may be further clarified once the USAC Management chart is completed."

CLA RESPONSE

As CLA does not make the determination if and when underpayments are to be netted with overpayments. USAC High Cost Program Management will determine effect of underpayments on recoveries and convey the results in a recovery letter when applicable.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 64.901(b)(4) (2018)	(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.
#2, 4	47 C.F.R. § 64.901(b)(3) (2018)	(3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.
#2	47 C.F.R. § 32.27 (2018)	(a) Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section. (b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a

Finding	Criteria	Description
		carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost. (1) Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (2) Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost. (c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate.

Finding	Criteria	Description
		Non-tariffed services provided between a carrier and its affiliate pursuant to publicly filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost. (1) Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (2) Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All

Finding	Criteria	Description
		services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. (d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied. (e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group. (f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.
#3	47 C.F.R § 54.320(b) (2018)	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.

Finding	Criteria	Description
#5	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.

Attachment M

HC2021LR025

KPMG

Perry-Spencer Rural
Audit Reference ID: HC2021LR025
(SAC No.: 320807)

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

Prepared for: Universal Service Administrative Company

As of Date: 10/31/2023

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

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KPMG

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

EXECUTIVE SUMMARY

October 31, 2023

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objective relative to Perry-Spencer Rural, Study Area Code ("SAC") No. 320807, ("Perry-Spencer" or "Beneficiary") for disbursements of $6,830,173 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019. Our work was performed during the period from September 27, 2021 to October 31, 2023, and our results are as of October 31, 2023.

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

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

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program (collectively, the " FCC Rules") relative to disbursements, of $6,830,173, made from the High Cost Program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility was to evaluate the Beneficiary's compliance with the FCC Rules as outlined in the Scope and Procedures sections of this report.

As our report further describes, KPMG identified two findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the High Cost program for the twelve-month period ended December 31, 2019 were $50,913 lower than they would have been had the amounts been reported properly.

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

KPMG

In addition, we also noted findings that are not significant within the context of the audit objective but warrant the attention of those charged with governance. We reported these findings to the Beneficiary's management in a separate letter dated October 31, 2023.

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

Sincerely,

KPMG LLP

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

List of Acronyms

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]			
	HCL	CAF BLS	CAF ICC	Total
HC2021LR025-F01: 47 C.F.R. Part 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation –The Beneficiary used ending month balances, instead of average monthly balances, to compute depreciation expense.	($17,847)	($26,023)	N/A	($43,870)
HC2021LR025-F02: 47 C.F.R. § 54.1305(i)– Inaccurate Loop Count Reporting – The Beneficiary overstated total Loop Counts on the HCL Forms compared to the source documentation.	($7,043)	N/A	N/A	($7,043)
Total Monetary Effect	($24,890)	($26,023)	N/A	($50,913)

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

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 320807, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	($17,847)	($26,023)	N/A	($43,870)	N/A
Finding #2	($7,043)	N/A	N/A	($7,043)	N/A
Mechanism Total	**($24,890)**	**($26,023)**	**N/A**	**($50,913)**	**N/A**

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

BACKGROUND, OBJECTIVE, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $6,830,173, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Perry-Spencer Rural (SAC No. 320807), the subject of this performance audit, is a rural ILEC located in St. Meinrad, Indiana and serves over 3,000 customers in the state of Indiana. The Beneficiary has a wholly owned subsidiary, Perry-Spencer Communications, Inc. and provides broadband, voice, and video services to individuals and businesses located in the Perry, Spencer, and Dubois counties of Indiana.

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

High Cost Support	Disbursement Amount
CAF BLS	$4,099,488
CAF ICC	$346,992
HCL	$2,383,693
Total	**$6,830,173**

Source: USAC

In addition to the above, the Beneficiary also received $22,798 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

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

- 2018-1, 2018-2, 2018-3 original, and 2018-3 revised HCL Forms, based on the twelve-month periods ended December 31, 2017, March 31, 2018, and June 30, 2018, respectively,
- 2018 FCC Form 509, based on calendar year 2017 data, and
- 2018 CAF ICC Form, based on program year 2017 data

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

OBJECTIVE

The audit objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $6,830,173, made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost Program forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost Program forms or other correspondence, and evaluation of disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work was focused on the High Cost Program forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019.[2]

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

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

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

PROCEDURES

1. **Materiality Analysis**

   For applicable High Cost Program forms, KPMG obtained the forms submitted for the periods ended December 31, 2017, March 31, 2018, and June 30, 2018, input the information into KPMG's High Cost Program models, and ran a materiality analysis that increased and decreased the account balances by +/- 50%, if the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for purposes of our performance audit.

2. **Reconciliation**

   KPMG obtained the audited 2017 and 2018 financial statements and reconciled to the G/L, from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost Program forms.

3. **Assets**

   KPMG compared Perry-Spencer's asset records reported in the G/L with the Beneficiary's CPR details to determine whether the Beneficiary maintained and reported accurate asset records. KPMG noted the Beneficiary did keep sufficient CPR details.

   KPMG utilized monetary unit sampling (MUS)[4] methodology considering tolerable rate of error and confidence level to select samples from material accounts identified in the relevant High Cost Program forms, which resulted in 29 asset samples. We made asset selections from CPR details, and material accounts included COE, C&WF and certain general support asset

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

[4] Monetary unit sampling (MUS) is a random-based sampling approach based on monetary fixed interval across the dollar values in the population.

accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

4. **Expenses**

   KPMG utilized a monetary unit sampling methodology, considering tolerable rate of error and confidence level, to select an expense sample, including payroll, from material operating expense accounts identified in the relevant High Cost Program forms. This resulted in a sample of 29 expense transactions. KPMG judgmentally added 10 expense transactions for a total of 39 transactions to ensure all material expense accounts across the different filings were included in our sample. We agreed expense amounts to the supporting documentation such as invoices and reviewed them for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

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

6. **COE Categorization**

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

7. **C&WF Categorization**

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

8. **Overheads**

   KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2017and 2018. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

9. **Taxes**

   KPMG determined the Beneficiary is a Tax-Exempt Cooperative entity for tax filling purposes, noting that for 2017and 2018, the Beneficiary filed a Corporate Tax Return – Form 990, a tax-exempt alternative for the legal entity. KPMG performed an evaluation of the applicable forms and determined that only property taxes were included in the regulatory forms for High Cost Program support.

10. Part 64 Cost Allocations

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

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that included telephone bills, voice and internet bills, and leased real properties that occurred during 2017 and 2018. These procedures included determining the population of affiliate transactions through inquiry along with reviewing the audited financial statements, trial balance, and intercompany accounts, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. We assessed the Beneficiary's transactions reported in the G/L, including transactions related to the affiliates. For the 12 transactions selected through attribute sampling, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2 and categorized in the appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

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

13. Revenue Requirement

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

RESULTS

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

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

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

HC2021LR025-F01: 47 CFR Part 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG obtained and examined the Beneficiary's G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used ending month balances, instead of average monthly balances, to compute depreciation expense as prescribed by FCC Rules[5] for the period of January 1, 2017 to June 30, 2018.

KPMG summarized the net differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month periods ended December 31, 2017, impacting the 2017 Form 509; March 31, 2018, impacting the 2018-2 HCL Form; and June 30, 2018, impacting the 2018-3 HCL Form, below:

Account Description	For the 12 months ended December 31, 2017 $ Variance	For the 12 months ended March 31, 2018 $ Variance	For the 12 months ended June 30, 2018 $ Variance
Account 3100 (2110): Accumulated Depreciation – General Support Assets	$65	($1,684)	($3,078)
Account 3100 (2210): Accumulated Depreciation – Central Office Switching Equipment	$36	$8,794	$8,788
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$2,200	$1,508	($1,516)
Account 3100 (2410): Accumulated Depreciation – C&WF	$66,024	$65,708	($5,042)
Account 6560 (2110): Depreciation and Amortization Expense – General Support Assets	$65	($1,684)	($3,078)
Account 6560 (2210): Depreciation and Amortization Expense – Central Office Switching Equipment	$36	$8,794	$8,788
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$2,200	$1,508	($1,516)
Account 6560 (2410): Depreciation and Amortization Expense – C&WF	$66,024	$65,708	($5,042)

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

[5] See 47 C.F.R. §32.2000(g)(2)(iii), 32.3100 and 32.6560 (2017) in the criteria section of the report.

CAUSE

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

EFFECT

KPMG calculated the monetary impact of this finding by considering the variances and twelve-month periods noted in the "Condition" above to the following accounts: adding $65 to and subtracting $1,684 and $3,078 from Accumulated Depreciation – General Support Assets and Depreciation and Amortization Expense – General Support Assets; adding $36, $8,794, and $8,788 to Accumulated Depreciation – Central Office Switching Equipment and Depreciation and Amortization Expense – Central Office Switching Equipment; adding $2,200 and $1,508 to and subtracting $1,516 from Accumulated Depreciation – Central Office Transmission Equipment and Depreciation and Amortization Expense – Central Office Transmission Equipment; and adding $66,024 and $65,708 to and subtracting $5,042 from Accumulated Depreciation – C&WF, and Depreciation and Amortization Expense – C&WF. This resulted in an under-payment of $43,870 which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019 below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($17,847)
CAF BLS	($26,023)
CAF ICC	N/A
Total	($43,870)

RECOMMENDATION

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

BENEFICIARY RESPONSE

The Beneficiary acknowledges that its accounting software depreciated based on ending month balances and not average monthly balances during the period under review. The Beneficiary has reviewed their accounting software processes and corrected the depreciation calculation. The Beneficiary will add an additional review process to verify that depreciation is calculating correctly.

HC2021LR025-F02: 47 C.F.R. § 54.1305(i)– Inaccurate Loop Count Reporting

CONDITION

KPMG obtained and examined the Beneficiary's HCL 2018-1, 2018-2, 2018-3 original and 2018-3 revised forms and source documentation to evaluate whether the Beneficiary reported accurate information for High Cost program purposes. For one of their four HCL filings, the Beneficiary did not report appropriate Category 1.3 Loop Counts as prescribed by FCC Rules.

FCC Rules[6] require that for universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service. The Category 1.3 Loops[7] submitted on original 2018-3 HCL form for June 30, 2018 did not reconcile to the source documentation and were overstated by 40 loops as noted below:

June 30, 2018 – Original		
	Total Loops	**Category 1.3 Loops**
Source Documentation	3,872	3,831
2018-3 HCL Form	3,872	3,871
Difference	0	(40)

CAUSE

The Beneficiary's preparation, review and approval processes governing the calculation and reconciliation of line count data did not detect the inaccurate reporting of Loop Counts and the submission of erroneous data.

EFFECT

KPMG calculated the monetary impact of this finding by considering the variance and twelve-month periods noted in the "Condition" above by subtracting 40 Loops from the original filing of the 2018-3 HCL Form Category 1.3 Loop Counts line item. This resulted in an under-payment of $7,043, which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019, below:

Support Type	Monetary Effect
HCL	($7,043)
CAF BLS	$0
CAF ICC	N/A
Total	**($7,043)**

RECOMMENDATION

KPMG recommends that the Beneficiary implement processes to review and report appropriate Loop Counts, including performance of a reconciliation of all Loop Count data to underlying support documentation. Moreover, the Beneficiary should enhance its preparation, review and approval processes over High Cost program filing to ensure compliance with FCC Rules and Orders. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges this finding illustrated and detailed above. The Beneficiary will continue further review processes to ensure proper calculations are included within Loop Count data and subsequent filings.

[6] See 47 C.F.R. § 54.1305(i), and 54.1306(a) (2017) in the criteria section of the report.
[7] See 47 C.F.R. §36.154(a) (2017)

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. §32.2000(g)(2)(iii) (2017)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."
#1	47 C.F.R. §32.3100 (2017)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#1	47 C.F.R. §32.6560 (2017)	"Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6561 through 6565."
#2	47 C.F.R. §36.154(a) (2017)	"Exchange Line C&WF - Category 1. The first step in apportioning the cost of exchange line cable and wire facilities among the operations is the determination of an average cost per working loop. This average cost per working loop is determined by dividing the total cost of exchange line cable and wire Category 1 in the study area by the sum of the working loops described in subcategories listed below. The subcategories are: Subcategory 1.1 - State Private Lines and State WATS Lines. This subcategory shall include all private lines and WATS lines carrying exclusively state traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes ten percent or less of the total traffic on the line. Subcategory 1.2 - Interstate private lines and interstate WATS lines. This subcategory shall include all private lines and WATS lines that carry exclusively interstate traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes more than ten percent of the total traffic on the line. Subcategory 1.3 - Subscriber or common lines that are jointly used for local exchange service and exchange access for state and interstate interexchange services."
#2	47 C.F.R. §54.1305(i) (2017)	"The number of working loops for each study area. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing."

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

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of the FCC Rules relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, KPMG identified two findings related to Inaccurate Deprecation Calculation and Inaccurate Loop Count.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	($24,890)
CAF BLS	($26,023)
CAF ICC	N/A
Total Impact	($50,913)

KPMG recommends that the Beneficiary enhance approval processes governing the calculation of depreciation and reporting of loop counts as prescribed by FCC Rules.

** This concludes the audit report.**

Attachment N

HC2022LR005

Stayton Cooperative Telephone Company

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

USAC Audit No. HC2022LR005

TABLE OF CONTENTS

EXECUTIVE SUMMARY

September 19, 2023

Don J Rickman
Chief Financial Officer
Stayton Cooperative Telephone Company
502 N Second Avenue
P.O. Box 477
Stayton, Oregon, 97383-0898

Dear Don Rickman:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Stayton Cooperative Telephone Company (Beneficiary), study area code 532399 disbursements for the year ended December 31, 2020, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination disclosed 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 Federal Communication Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect and Recommended Recovery[1]			
	HCL	CAF BLS	CAF ICC	Total
Finding #1: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purpose. The Beneficiary's reported balances included ineligible transactions, and support was not used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.	$6,916	$2,968	$0	$9,884
Finding #2: 47 C.F.R. § 32.2000(e) (2018) – Improper Continuing Property Records (CPR). The Beneficiary did not maintain a complete detailed CPR for the Cable and Wire Facility (CWF) and Central Office Equipment (COE) assets.	$0	$0	$0	$0
Total	**$6,916**	**$2,968**	**$0**	**$9,884**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 532399 for the High Cost Program support amount noted in the chart below. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure the correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	CAF BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$6,916	$2,968	$0	$9,884	N/A
Finding #2	$0	$0	$0	$0	N/A
Mechanism Total	**$6,916**	**$2,968**	**$0**	**$9,884**	**N/A**

[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] *Id.*

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Documentation Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$2,164,392
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2017-2019	2020	$654,042
High Cost Loop (HCL)	2018	2020	$1,121,428
		Total	**$3,939,862**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Oregon. The Beneficiary is an affiliate of Consolidated Business Services.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Billing Records

AAD obtained and examined the Beneficiary's billing records. AAD used computer-assisted auditing techniques to analyze the data files and to determine whether the number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.7(a) (2018), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purpose

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary (1) recorded its cost study balances to the proper general ledger account and (2) used its High Cost support for the provision, maintenance, and upgrading of facilities and services for which the support was intended.[3] AAD used computer-assisted auditing techniques and identified 32 general ledger transactions totaling $20,686, from account 6720 - General and Administrative Expense,[4] for the twelve months ended December 31, 2018, that the Beneficiary did not properly exclude. These expenses were related to automated external defibrillators (AED), patronage distribution notices, retirement plans, human resources conferences, service awards, administrative office items unrelated to business operations, employee drug testing, and food, and were not necessary for the provision, maintenance, and upgrading of facilities,[5] as summarized in the table below:

Transaction Description	**Transaction Total for the Twelve Months Ended Dec. 31, 2018**
Automated External Defibrillators (AEDs)	$13,450
Patronage Distribution Notice	$3,296
Retirement	$1,500
Human Resources Conferences	$1,120
Service Awards	$300
Admin Office Items Unrelated to the provision and maintenance of facilities	$478
Employee Drug Testing	$114
Food	$428
Total	**$20,686**

[3] 47 C.F.R. § 54.7(a) (2018). See also *In the Matter of Sandwich Isles Communications, Inc.*, WC Docket 10-90, Order on Reconsideration, FCC 18-172, para. 7 (2019); Public Notice, *All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose*, FCC 15-133, para.7 (Oct. 19, 2015); *In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 14 and para. 15 (Mar. 23, 2018).
[4] *See* 47 C.F.R. § 32.6720 (2018).
[5] *See* Public Notice, *All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose*, FCC 15-133, para. 1 and para.7 (Oct. 19, 2015), and *In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 14 and para. 15 (Mar. 23, 2018).

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

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude transactions that were not used for the provision, maintenance, and upgrading of facilities and services for which the High Cost support was intended.

EFFECT

AAD calculated the monetary effect of this finding by subtracting the value of the 32 ineligible transactions from the balances reported by the Beneficiary in the respective accounts in its High Cost program filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$6,916
CAF BLS	$2,968
Total	**$9,884**

RECOMMENDATION

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

The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary removes costs that are not for the provision, maintenance, and upgrading of facilities and services for which the support is intended to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. 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

> We responded previously that we felt that some of these items should not be excluded. We still believe the following five items should not be excluded. (1) The AED's are necessary in case of an employee medical emergency. We have an AED device in each building. Employees are the key to provisioning, maintaining and upgrading facilities. (2) Cooperatives are required to notify members of their patronage distribution. The postage associated with these notices should be an allowed expense. (3) The $1,500 fee was for completing the [Form] 5500 associated with our retirement plan. Retirement plans are a common employee benefit and are essential for retraining quality employees. (4) Human Resource conferences are a normal business expense and help ensure that the company is able to properly support its workforce. (5) The [Admin Office] items mentioned are necessary to

provide a safe and comfortable work environment for the staff. We are okay with the other 3 items; service awards, employee drug testing and food being excluded.

We will continue to monitor expenses and discuss excluded expenses with our cost consultants to ensure proper reporting going forward.

AAD RESPONSE

The Beneficiary disagreed with 24 of the 32 general ledger transactions mentioned in the Condition. The Beneficiary asserts that these line items should not be removed for varying reasons. AAD acknowledges that although these 32 expense transactions may be valid, these transactions are not eligible for USF support purposes as they are contrary to the used and useful standard, which underlines that the premise of high cost support must be used "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[6] FCC Rules state that a "carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[7] Further, FCC Rules establish the "used and useful" standard, which provides the foundation for FCC decisions evaluating whether particular investments and expenses are reasonable.[8] Under this standard, the FCC first "considers the need to compensate the service providers for the use of their property and the expenses incurred in providing the regulated service."[9] Second, "the Commission looks to the equitable principle that ratepayers should not be forced to pay a return except on investments that can be shown to benefit them; thus it considers whether the expense was necessary to the provision of interstate telecommunications services."[10] Third, "the Commission considers whether a carrier's investments and expenses were prudent (rather than excessive), and whether the investment will be put in use and begin yielding benefits for ratepayers within a reasonable period of time."[11] FCC Rules also lay out a non-exhaustive list of expenditures that are not necessary to the provision of supported services.[12]

Therefore, for the reasons stated above, AAD's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 32.2000(e) (2018) – Improper Continuing Property Records

CONDITION

AAD obtained and examined the Continuing Property Records (CPR) to determine whether the Beneficiary properly maintained its property records. The Beneficiary did not maintain a complete detailed CPR for the

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[6] *See* 47 C.F.R. § 54.7(a) (2018).
[7] 47 C.F.R. § 54.7(a) (2018).
[8] In the Matter of Sandwich Isles Communications, Inc., WC Docket 10-90, Order on Reconsideration, FCC 18-172, para. 7 (2019).
[9] *Id.*
[10] *Id*.
[11] *Id*.
[12] *See* Public Notice, *All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose*, FCC 15-133, para.7 (Oct. 19, 2015); *In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 14 and para. 15 (Mar. 23, 2018).

Cable and Wire Facility (CWF) and Central Office Equipment (COE) assets.[13] Specifically, the Beneficiary's CWF CPR lacked location, date of placement, and the original cost of the property record units, and the Beneficiary's COE CPR lacked location.

Because the Beneficiary did not retain sufficient detail to account for their CWF and COE investments within the CPR, AAD concludes that the Beneficiary did not maintain its CPR to provide for (1) the verification of property records units by physical examination, (2) accurate accounting for retirements, and (3) data for use in connection with depreciation studies.[14] The Beneficiary must maintain detailed CPRs that include the location, date of placement, and the original cost of the property record units.[15]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to include the proper level of detail. The Beneficiary stated that a transition in staffing caused a three-year period in which detailed CPRs were not properly maintained.[16]

EFFECT

As the Beneficiary adequately reported the COE and CWF balances by utilizing the general ledger balances as of December 31, 2018 in its High Cost data submission, AAD finds no monetary effect to be calculated and therefore recommends no recovery. However, CPRs are an integral component of retiring assets when removed from service, transferring assets between locations, and ensuring that the general ledger accurately reflects the investment in assets that are providing service in the Beneficiary's network. While there is no monetary impact of this finding, the failure to maintain accurate CPRs that support the full amounts in the general ledger balances for plant in service accounts increases the probability for errors and/or omissions in future High Cost Program filings.

RECOMMENDATION

The Beneficiary must develop and implement policies and procedures to bring its property records into compliance, and to maintain such records with the level of detail required by FCC Rules. AAD recommends that the Beneficiary consider conducting a complete inventory or hire an expert to conduct an inventory of the COE and CWF plant in service and evaluate the actual original cost of the property, or estimates if the original cost is unknown. The Beneficiary must also develop and implement policies, procedures, and processes that describes how the Beneficiary will properly track asset activity and update its CPR for all asset activity to ensure balances reported for High Costs Program purposes are accurate.

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

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[13] *See* 47 C.F.R. § 32.2000(e) (2018).
[14] *See* 47 C.F.R. § 32.2000(e)(7)(i) (2018).
[15] AAD was still able to select 27 asset samples (8 samples from the COE CPR, 5 samples from the CWF CPR, and 14 samples directly from the CWF general ledger) and perform detailed testing.
[16] *See* Beneficiary responses to the Audit Results Summary, received Sept. 19, 2023.

BENEFICIARY RESPONSE

We are using a new software system that will allow us to better track location, date of placement and the original cost of the property record units.

CRITERIA

Finding	Criteria	Description
#1	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.
#1	Public Notice, *All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose*, FCC 15-133, para. 1 and para.7 (Oct. 19, 2015).	"The Commission reminds all eligible telecommunications carriers (ETCs) that receive support from the Universal Service Fund's high-cost mechanisms (whether legacy high-cost program support or Connect America Fund support) of their obligations to use such support only for its intended purposes of maintaining and extending communications service to rural, high-cost areas of the nation. Expenditure of legacy high-cost or Connect America support for any other purpose is misuse and may subject the recipient to recovery of funding, suspension of funding, enforcement action by the Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act… 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."
#1	*In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 14 and para. 15 (Mar. 23, 2018)	The High-Cost Oct. 19, 2015 Public Notice contained a non-exhaustive list of expenditures that cannot be recovered through the high-cost program because they are "not necessary to the provision of supported services."…Several months later, the Commission released the Rate-of-Return Reform Further Notice initiating, among other things, a comprehensive review of the extent to which certain investments and expenses incurred by rate-of-return LECs may be included in the revenue requirement for ratemaking and the extent to which carriers may receive support for such expenses from the high-cost universal service support program. The Commission observed that it had not comprehensively reviewed the continued reasonableness of its rules regarding permissible investments and expenses since the Telecommunications Act of 1996 was adopted, and market and regulatory conditions had changed substantially since that time. The expansion of the broadband market has placed steady demands on the high-cost program and, coupled with a shrinking contribution base, the Commission found that it was more important than ever that these finite funds be used solely for their intended purposes. In the Rate-of-Return Reform Further Notice, the

Finding	Criteria	Description
		Commission identified several additional categories of goods or services that were not previously explicitly prohibited from recovery through high-cost support that it proposed prohibiting going forward, including: artwork and other objects which possess aesthetic value; corporate aircraft, watercraft, and other motor vehicles designed for off-road use, except insofar as necessary to access inhabited portions of the study area not reachable by motor vehicles travelling on roads; any vehicles for personal use; tangible property not logically related or necessary to the offering of voice or broadband services; childcare; cafeterias and dining facilities; and, housing allowances or other forms of mortgage or rent assistance for employees. The Commission expressed concern that such expenses were not necessary to the provision of supported services and sought comment on whether there was any reason that these expense categories should not be completely excluded from a carrier's high-cost support.
#1	47 C.F.R. § 32.6720 (2018)	This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public…. (e) Performing personnel administration activities…. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel,

Finding	Criteria	Description
		depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#1	*In the Matter of Sandwich Isles Communications, Inc.*, WC Docket No. 10-90, Order on Reconsideration, FCC 18-172, para. 7 (2019)	"The Commission for decades has applied the "used and useful" standard in determining the appropriate investments and expenses to be included in a rate-of-return carrier's interstate rate base. The used and useful standard provides the foundation for Commission decisions evaluating whether particular investments and expenses are reasonable. First, the Commission considers the need to compensate the service providers for the use of their property and the expenses incurred in providing the regulated service. Second, the Commission looks to the equitable principle that ratepayers should not be forced to pay a return except on investments that can be shown to benefit them; thus it considers whether the expense was necessary to the provision of interstate telecommunications services. 20 Finally, the Commission considers whether a carrier's investments and expenses were prudent (rather than excessive), and whether the investment will be put in use and begin yielding benefits for ratepayers within a reasonable period of time. The "used and useful" concept has both informed the Commission's regulatory cost accounting and ratemaking rules and operated to protect the

Finding	Criteria	Description
		interests of ratepayers and carriers."
#2	47 C.F.R. § 32.2000(e) (2018)	(e) *Basic property records.* (1) The basic property records are that portion of the total property accounting system which preserves the following detailed information: (i) The identity, vintage, location and original cost of units of property; (ii) Original and ongoing transactional data (plant account activity) in terms of such units; and (iii) Any other specific financial and cost accounting information not properly warranting separate disclosure as an account or subaccount but which is needed to support regulatory, cost, tax, management and other specific accounting information needs and requirements. (2) The basic property records must be: (i) Subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and (iv) maintained throughout the life of the property. (3) The basic property records shall consist of (i) continuing property records and (ii) records supplemental thereto which together reveal clearly, by accounting area, the detailed and systematically summarized information necessary to meet fully the requirements of paragraphs (e)(1) and (e)(2) of this section. (4) Companies shall establish and maintain basic property records for each class of property recorded in the several plant accounts which comprise the balance sheet Account 2001, Telecommunications Plant In Service, Account 2002, Property Held for Future Telecommunications Use, and Account 2006, Nonoperating Plant. (5) The company shall notify the Commission of a plan for the basic property record as follows: (i) Not later than June 30 of the year following that in which it becomes subject to this system of accounts, the company shall file with the Commission two (2) copies of a complete plan of the method to be used in the compilation of a basic property record with respect to each class of property. The plan shall include a list of proposed accounting areas accompanied by description of the boundaries of each area as defined in accordance with the requirements of § 32.2000(f)(1) (i) and (ii) of this subpart. The plan shall also include a list of property record units proposed for use under each regulated plant account. These property record units shall be selected such that the requirements of § 32.2000(f)(2) (i), (ii) and (iii) of this subpart can be satisfied.

Finding	Criteria	Description
		(ii) The company shall submit to the Commission one copy of any major proposed changes in its basic property record plan at least 30 days before the effective date of the proposed changes. (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. (iii) Promptly process in the basic property records all property changes affecting periods subsequent to initial establishment of the basic property record. (7) The basic property record components (see paragraph (c) of this section) shall be arranged in conformity with the regulated plant accounts prescribed in this section of accounts as follows: (i) The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). The continuing property records shall be maintained as prescribed in § 32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives: (A) Provide for the verification of property record units by physical examination. (B) Provide for accurate accounting for retirements. (C) Provide data for use in connection with depreciation studies. (ii) The records supplemental to the continuing property records shall disclose such service designations, usage measurement criteria, apportionment factors, or other data as may be prescribed by the Commission in this part or other parts of its Rules and Regulations. Such data are subject to the same general controls and standards for auditability and support as are all other elements of the basic property records. (8) Notwithstanding any other provision of this part concerning continuing property records, carriers subject to price cap regulations set forth in part 61 of this chapter shall maintain property records necessary to track substantial assets and investments in an accurate, auditable manner that enables them to verify their accounting books, make such property information available to the Commission upon request, and ensure the maintenance of such data.

This concludes the report.

Attachment O

HC2022LR011

Available For Public Use

ENMR Telephone Cooperative - NM

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

USAC Audit No. HC2022LR011

Prepared For:

Universal Service Administrative Company

September 2, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

September 2, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of ENMR Telephone Cooperative-NM (Beneficiary), study area code (SAC) **492262** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from February 24, 2022, to September 2, 2022.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
September 2, 2022

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 51.917(d)(1)(v) (2018) - Inaccurate Reporting of Intrastate Terminating Switched Access Service Revenues The Beneficiary underreported Intrastate Terminating Switch Access Service Revenues.	$ 0	$ 0	$ 72,519	$ 72,519

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 492262, for the High Cost Program support in the amount noted in the chart below.

Regarding the recommendation, USAC's High Cost Program Management will review this internally and make a determination accordingly. The Beneficiary must also implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	CAF ICC (A)	CAF BLS (B)	HCL (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$72,519	$0	$0	$72,519	N/A
Total	**$72,519**	**$0**	**$0**	**$72,519**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 8,000 subscribers in eastern New Mexico and western Texas. The SAC in the scope of the audit operates exclusively in the state of New Mexico. The Beneficiary wholly owns its subsidiary Plateau Telecommunications Incorporated. The Beneficiary along with its affiliated entity provide non-regulated services including internet, phone service, TV, and VoIP services.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$13,949,370
High Cost Loop (HCL)	2018	2020	$6,542,183
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$2,549,262
		Total	**$23,040,815**

PROCEDURES
We performed the following procedures:

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

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

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

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

E. Revenues

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

F. Affiliate Transactions

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

G. Cost Allocation

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

DETAILED AUDIT FINDING

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

CONDITION

CLA obtained and examined the Beneficiary's billing reports, general ledger and the National Exchange Carrier Association (NECA) CAF ICC True-Up documentation to determine whether the Beneficiary accurately reported actual payments earned for providing Intrastate Terminating Switched Access Services (Intrastate Revenue).

FCC rules require 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]

From our review, we identified variances between the billing reports and general ledger to the revenues reported for Intrastate Terminating Switched Access Services on NECA's CAF ICC True-Up documentation for both program years 2017 and 2018. A summary of the variances is identified below.

Revenue	Program Year 2017 – June 2018	Program Year July 2018 – June 2019
Intrastate Revenue Reported	$228,194	$288,249
Billing Report/GL for Intrastate Revenue	$330,372	$331,109
Intrastate Revenue Variance	**$102,178**	**$42,860**

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate revenues earned for Intrastate Terminating Switched Access Services for High Cost Program purposes. According to the Beneficiary, the underreporting was primarily a result of recording this revenue type as a local revenue in the general ledger and therefore it is not reported. As a result, the Beneficiary has redirected this revenue to its separate general ledger account for the purposes of reporting to NECA.[2]

EFFECT

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

Support Type	Monetary Effect & Recommended Recovery
CAF ICC	$72,519[3]
HCL	$0
CAF BLS	$0
Total	**$72,519**

[1] *See* 47 C.F.R. § 51.917(d)(1)(v) (2018).

[2] Beneficiary's response to the Summary of Exceptions, received October 19, 2022.

[3] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes at least $72,519 in improper disbursements were made during prior and subsequent periods. Additional amounts may have been overstated in prior periods due to the same error.

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 High Cost Program purposes as well as perform timely review of the system to ensure the system is functioning properly. Also, since the issue with the revenue type being recorded in a local revenue account and therefore was not reported for High Cost purposes, likely existed prior to the current audit period, CLA recommends the High Cost Program Management collect and review documentation for prior years High Cost submissions of the Beneficiary to recalculate support.[4]

BENEFICIARY RESPONSE
We concur with the finding. We updated our revenues in all open periods in the NECA system after discovering the error. We did inquire of NECA about reporting the revenues in prior periods that are not within the two year window of the NECA pool and were told the following by NECA:

The 3.2.15 section of the pool procedure has the following:

Correction of errors in revenue after the true-up filing deadline as well as revenue billed in periods outside the 24-month window and realized in current CAF ICC period cannot be reported to the pool.

The email from Mark Roberts is also included.[5]

CLA RESPONSE
While it is true that NECA only allows a 24-month window for changes, the two-year true-up period to correct errors reflected in ARC and intrastate and interstate access demand forecasts relative to our eligible recovery calculations does not in any way limit the carrier's obligation to return any excess CAF ICC funding it erroneously received outside of the two-year window. NECA's two-year reporting window deals only with the pooling of interstate access revenues, not intrastate access (or local) revenues. As NECA's limitations on corrections does not affect the carrier's need to return funding that was erroneously received because of inaccurate accounting, the carrier needs to provide additional records to USAC for those periods for additional recovery. Furthermore, USAC's High Cost Program Management should follow-up to ensure that the Beneficiary properly provides sufficient additional documentation for all applicable periods to facilitate the repayment of overpaid funds due to errors in recording of revenue.

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[4] The prior periods in which incorrectly accounting for intrastate revenue as local revenue is outside the scope of CLA's designated audit period, thus the recommendation for USAC High Cost Program to pursue further. In addition, CLA does not have in its possession the support for calculating monetary effect of prior periods and would not receive the support in a manner that would allow for timely issuance of the audit report.

[5] Beneficiary included email correspondence with Mark Roberts, NECA Manager, dated April 11, 2022.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 51.917(d)(1)(v) (2018)	(d) Eligible Recovery for Rate-of-Return Carriers. (1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section. (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year.

Attachment P

HC2022LR027

Available For Public Use

Valley Telephone Cooperative, Inc.

Limited Review Performance Audit on

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

USAC Audit No. HC2022LR027

Prepared For:

Universal Service Administrative Company

March 10, 2023

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EXECUTIVE SUMMARY

March 10, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Valley Telephone Cooperative, Inc. (Beneficiary), study area code **442159,** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 31, 2022, to March 10, 2023.

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

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

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

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

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Greenbelt, MD
March 10, 2023

AUDIT RESULTS AND RECOVERY ACTION

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

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
Finding #1: 47 C.F.R 32.2000 (g)(1)-(2) – Inaccurate Depreciation Calculation - Carrier utilized alternative method of depreciation without commission approval.	($502,128)	($907,464)	-	($1,409,592)	$0
Finding #2: 47 C.F.R. § 64.901(b) - Improper Inclusion of Non-Regulated Assets - Spare Fiber allocation. The Beneficiary did not correctly allocate spare fiber costs based on usage.	$155,935	$353,211	-	$509,146	$509,146
Finding #3: 47 C.F.R 54.320(b) - Inadequate Documentation – Assets. The Beneficiary did not provide sufficient documentation for selected asset samples.	$8,185	$19,702	-	$27,887	$27,887
Finding #4: 47 C.F.R. § 51.917(d) - Inaccurate Interstate and Intrastate Revenue Reporting - Inaccurate revenue reporting for both interstate and intrastate revenues.	-	-	$16,005	$16,005	$16,005

Finding #5: 47 C.F.R. § 51.917(d) - Inaccurate reporting of end user line port revenue.	$152,564	-	-	$152,564	$152,564
Total	**($185,444)**	**($534,551)**	**$16,005**	**($703,990)**	**$705,602**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for the Beneficiary for SAC 442159, for High Cost program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Regarding the recommendation for Findings 1 and 3, USAC's High Cost Program Management will review this internally and make a determination accordingly.

Further as it relates to Finding #3, USAC Management requires the Beneficiary to be placed on a Corrective Action Plan (C.A.P.) to address lack of documentation and data retention procedures. As part of the C.A.P., the Beneficiary must report to High Cost Management, within 60 days of the date of the Notification Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

	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	($502,128)	($907,464)	-	($1,409,592)	**N/A**
Finding #2	$155,935	$353,211	-	$509,146	**N/A**
Finding #3	$8,185	$19,702	-	$27,887	**N/A**
Finding #4	-	-	$16,005	$16,005	**N/A**
Finding #5	$152,564	-	-	$152,564	**N/A**
Total	**($185,444)**	**($534,551)**	**$16,005**	**($703,990)**	**N/A**

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

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 5,000 subscribers in south Texas. The Beneficiary has one affiliated entity, a wholly owned subsidiary named VTX Communications, LLC. The Beneficiary and its affiliated entities provide non-regulated services including retail video service, transport services, and security system installation and monitoring.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

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

SCOPE

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$5,070,561
HCL	2018	2020	$7,078,089
CAF ICC	2018	2020	$45,552
		Total	**$12,194,202**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Fixed Assets

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

D. Operating Expenses

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

E. Revenues

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

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

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R § 32.2000(g)(1)-(2): Inaccurate Depreciation Calculation

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for its High Cost program filing for the period ending December 31, 2018.

To determine monthly depreciation amounts, FCC Rules require carriers to utilize the monthly average asset balance method for each class or subclass of plant, applying monthly charges by applying one-twelfth of the annual depreciation rate to the monthly average balance of the applicable plant asset class.[1] However, the Beneficiary utilizes a different approach called the Vintage Year Method to calculate its depreciation. The Beneficiary explained that this method was adopted based on advice from its financial statement auditors in 2008 to avoid situations where additions would fully depreciate in a matter of a few months due to high account balances. While the Beneficiary did get the approval of its state commission for this alternative method, the Beneficiary failed to seek and obtain approval for this method from the FCC.

The differences between the recalculated twelve months of depreciation expense using the average asset balance method and the amount submitted for High Cost program support are presented below:

Table 1A: Impact to Reported Account Balances			
Account	**As reported in Part 64 Cost Study (A)**	**CLA Audited Balances (B)**	**Difference (B-A)=C**
Accumulated Depreciation (Account 2110 – Support Assets)	$14,293,251	$14,949,089	$655,838
Accumulated Depreciation (Account 2210 – Central Office Switching)	$2,472,034	$2,484,865	$12,831
Accumulated Depreciation (Account 2230 – Central Office Transmission)	$11,527,895	$12,588,494	$1,060,599
Accumulated Depreciation (Account 2410 – Cable and Wire Facilities)	$82,642,819	$85,010,077	$2,367,258
Depreciation Expense (Account 6561 – Support Assets)	$1,382,187	$2,038,025	$655,838
Depreciation Expense (Account 6561 – COE Switching)	$255,246	$268,077	$12,831
Depreciation Expense (Account 6561 – COE Transmission)	$1,205,562	$2,266,161	$1,060,599
Depreciation Expense (Account 6561 – Cable and Wire Facilities)	$4,810,813	$7,178,071	$2,367,258

[1] *See* 47 CFR § 32.2000(g)(2) (2018).

CAUSE

The Beneficiary did not understand that rules had changed to no longer require the use of the vintage method but had changed to require the average asset balance related to the calculation of depreciation charges. In addition, the Beneficiary failed to seek FCC approval before utilizing an alternative method of depreciation. The Beneficiary stated the difference in depreciation was entirely a result of using the vintage method, which the Beneficiary used to avoid depreciating assets substantially faster than the asset's economic life.[2]

EFFECT

CLA calculated the monetary effect of this finding by adding a total of $4,096,526 to the accumulated depreciation and depreciation expense accounts from the Beneficiary's High Cost program filings for the period ending December 31, 2018.[3] The monetary impact of this finding relative to disbursements made from the High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$(502,128)
HCL	$(907,464)
CAF ICC	-
Total	**$(1,409,592)[4]**

RECOMMENDATION

No recovery is recommended for this finding as the finding is an underpayment of support. We recommend the Beneficiary perform an analysis of its depreciation charges by applying one-twelfth of the annual depreciation rate to the monthly average balance of the applicable plant asset class. This analysis should start at the adoption of its alternative method conversion and continue through every High Cost filing period the Beneficiary has utilized the alternative method to allow for the accurate recalculation of support for the year affected. The Beneficiary is to provide the analysis, and any supplemental supporting documentation, to the High Cost Program.

BENEFICIARY RESPONSE

The beneficiary acknowledges the results of the finding and will implement procedures to ensure that depreciation expense calculations are in compliance with FCC rules going forward.

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[2] Beneficiary's response to the Summary of Exceptions, received April 10, 2023.

[3] Please see table 1A for depreciation charges added per Part 32 account.

[4] The monetary effect listed only represents an estimation of the effects on disbursements during calendar year 2020 as the estimation utilizes the Beneficiary's accumulated depreciation balances reported in its general ledger. CLA notes the beginning balances for accumulated depreciation in the general ledger are more than likely to be inaccurately reported due to the alternative method utilized by the Beneficiary. Additionally, it is likely that inaccurate disbursements were made during prior and subsequent periods due to related depreciation errors.

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

CONDITION

CLA obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) route allocation to determine whether the route investment costs were assigned to the proper category and accurately reported for High Cost Program purposes for the period ending December 31, 2018. The Beneficiary's CWF route allocation shows that some of the fiber strands were not in use during the year and are therefore considered spare. The Beneficiary included the entire cost of these spare fibers as part of CWF Category 1. However, according to FCC Rules, outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[5] Thus, the spare fibers should have been allocated using the usage of the investment instead of being directly assigned to CWF Category 1.

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

Table 2A: Recalculation of Cable and Wire Facilities

Account	Part 64 Balance (A)	CLA Audited Balance (B)	Understatement/ (Overstatement) (C=B-A)
CWF Investment (Acct 2410)	$124,416,501	$122,114,818	$(2,301,683)
CWF Accumulated Depreciation (Acct 3100-2410)	$82,642,819	$81,113,883	$(1,528,936)
CWF Depreciation Expense (Acct 6561-2410)	$4,810,813	$4,721,817	$(88,996)
CWF Expenses (Acct 6410)	$1,515,409	$1,487,377	$(28,032)

Table 2B: Impact to Cable and Wire Facilities Categorization

Category	Part 36 Cost Study As Reported (A)	CLA Audited Balance (B)	Understatement/ (Overstatement) (C=B-A)
Category 1	$111,127,849	$105,098,235	($6,029,614)
Category 2.1 - Exch Trk CWF - EAS	$39,594	$84,634	$45,040
Category 2.3 - WBI Transport	$453,326	$941,675	$488,349
Category 2.4 - Exch Trk CWF - Wb	$8,377,933	$10,067,012	$1,689,079
Category 3 - IX C&WF	$114,833	$255,571	$140,738
Category 4 Host Remote	$1,049,201	$2,413,926	$1,364,725
Total	**$121,162,736**	**$118,861,053**	**($2,301,683)**

[5] See 47 CFR § 64.901(b)(4) (2018).

Because the Beneficiary did not properly allocate spare fiber and improperly included non-regulated amounts in its High Cost filing, CLA concludes that the Beneficiary did not report accurate Cable and Wire Facilities balances.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly allocate spare fiber and exclude non-regulated amounts from the amounts reported for High Cost Program purposes. The Beneficiary explained they attempted to follow NECA guidelines that state certain CWF investment that is reserved can be categorized based on an analysis of company records.[6]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $2,301,683 from the Beneficiaries' CWF, $1,528,936 from CWF Accumulated Depreciation, $88,996 from CWF Depreciation expense, and $28,032 from CWF expenses from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from the High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$155,935
HCL	$353,211
CAF ICC	-
Total	**$509,146**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We recommend the Beneficiary implement policies and procedures to ensure that spare fiber is allocated based upon the relative regulated and non-regulated usage of the investment. CLA also recognizes that the incorrect methodology used may impact prior and future years recoveries and suggests that High Cost Management look into the matter further.

BENEFICIARY RESPONSE

The Beneficiary agrees that spare fiber cost was assigned to Category 1 with a portion then allocated to Category 2.2 for data only loop and Category 2.4 for wideband loop. The beneficiary's spare fiber is intended for current and future fiber to the home customers so that the company can meet broadband buildout obligations and can reasonably expect to be able to serve the rapidly growing broadband needs of its customers, present and future. The beneficiary continues to convert customers to broadband service which requires additional fiber capacity while at the same time capacity used for other services is decreasing. The Beneficiary does not agree that spare fiber should be allocated based on fibers in use since usage is in some instances capped on a per fiber basis or is decreasing.

FCC rule 36.153(a)(1) states:

(i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows:

[6] Beneficiary's response to the Summary of Exceptions, received April 10, 2023.

(A) *By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category.*

In addition, NECA advises its member companies in Cost Guideline 4.23 that FCC rules acknowledge that certain CWF investment can be reserved and categorized according to assignment records. The concept of reserving fibers for a particular category does not appear to be in conflict with Part 64.901(a)(2) which includes: "Costs shall be directly assigned to either regulated or nonregulated activities whenever possible."

<u>CLA RESPONSE</u>
Outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[7] As such, the "Spare" cable and wire facilities should have been allocated based on usage within each section analysis of the cable and wire study as part of the Part 64 non-regulated allocation prior to the Part 36 separations the Beneficiary is referring to in is quotation of 47 C.F.R. § 36.153(a)(1)(i)(A) in their response to this finding.

The Beneficiary states in its' response, "The Beneficiary acknowledges that spare fiber was initially assigned to Category 1 in the cable and wire facilities analysis, however, a portion of Category 1 is then allocated to Category 2.2 for data only loop and Category 2.4 for wideband loop," to indicate that spares are not directly allocated to only Category 1. The Beneficiary does not however state that the "Spare" fiber is allocated to the in-use non-regulated categories identified in their cable and wire study as required by 47 C.F.R. § 64.901(b). As such, it is verified that the Beneficiary did not properly allocate spares to "all" in use categories as required prior to the Part 36 separations. Therefore, 47 C.F.R. § 36.153(a)(1)(i)(A) does not apply in this case. CLA's position on this finding remains unchanged.

[7] See 47 C.F.R. § 64.901(b)(4) (2018).

Finding #3: 47 C.F.R. § 54.320(b) Inadequate Documentation - Assets

CONDITION

CLA obtained and examined the Beneficiary's general ledger for the year ended December 31, 2018, its CPRs, and supporting documentation such as invoices, internal inventory transaction listing, and work order summaries to determine whether the Beneficiary properly recorded and categorized assets for High Cost program purposes. FCC Rules state that all ETCs must retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules.[8] All such records must be maintained for at least ten years from the receipt of funding.[9]

CLA selected a non-statistical sample of 46 CWF asset samples[10] totaling $5,516,172 for testing in accordance with the High Cost rules. For three of the 46 samples totaling $641,183, the Beneficiary was unable to provide adequate documentation to support the valuation of the asset samples. CLA recalculated the Beneficiary's account balances by excluding the unsupported assets from the Beneficiary's submitted Part 64 balance as summarized in the table below:

Table 3A: Impact to Part 64 Cable and Wire Accounts			
Account	Part 64 Balance (A)	CLA Audited Balance[11] (B)	Understatement/ (Overstatement) (C=B-A)
CWF Investment (Acct 2410)	$124,416,501	$123,793,913	($622,588)
CWF Accumulated Depreciation (Acct 3100-2410)	$82,642,819	$82,240,775	($402,044)
CWF Depreciation Expense (Acct 6561-2410)	$4,810,813	$4,787,461	($23,352)
CWF Expenses (Acct 6410)	$1,515,409	$1,508,067	($7,342)

Table 3B: Impact to Cable and Wire Facilities Categorization			
Category	Part 36 Cost Study As Reported (A)	CLA Audited Balance (B)	Understatement/ (Overstatement) (C=B-A)
Category 1	$111,127,849	$110,556,824	($571,025)
Category 2.1 - Exch Trk CWF - EAS	$39,594	$39,391	($203)
Category 2.3 - WBI Transport	$453,326	$450,997	($2,329)
Category 2.4 - Exch Trk CWF - Wb	$8,377,933	$8,334,883	($43,050)
Category 3 - IX C&WF	$114,833	$114,243	($590)
Category 4 Host Remote	$1,049,201	$1,043,810	($5,391)
Total	**$121,162,736**	**$120,540,148**	**($622,588)**

8 *See* 47 CFR § 54.320(b) (2018).

9 *Id.*

10 Sampling methodology is derived from the 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 high cost support.

11 Actual amounts have been adjusted by the non-regulated allocation factors established by Beneficiary for 2018.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data related to its cable and wire facility additions. The Beneficiary explained that the Beneficiary's outside plant personnel did not keep sufficient detailed historical records to demonstrate that the support received was consistent with the universal service high-cost program rules.[12]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $622,588 from the Beneficiaries' CWF, $402,044 from CWF Accumulated Depreciation, $23,352 from CWF Depreciation expense, and $7,342 from CWF expenses from the Beneficiary's High Cost program filings. CLA summarized the impact of this finding relative to disbursements made from the High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$8,185
HCL	$19,702
CAF ICC	-
Total	**$27,887**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend the Beneficiary implement policies and procedures to ensure that documentation necessary to support the valuation of its assets receiving High Cost program support is maintained for at least ten years from the receipt of funding. CLA also recognizes that the issue of missing documentation may impact prior and future years recoveries and suggests that High Cost Management look into the matter further.

BENEFICIARY RESPONSE

The beneficiary disagrees with the auditor's recommendation seek recovery for the exclusion of these specific assets due to lack of documentation in their entirety when these same assets are utilized in the provision of regulated services. However, the Beneficiary will develop procedures to improve documentation detail so that it is in full compliance with 47 C.F.R. 54.320(b).

CLA RESPONSE

CLA made PBC follow-up requests related to the 3 samples for which the Beneficiary did not provide supporting documentation as follows: August 18, 2022, for samples 20 and 29 and on February 27, 2023, for sample 1 of the "Additional 2014 CWF" samples initially requested on February 20, 2023. Specifically for samples 20 and 29, the Beneficiary response to our follow-up inquiry was "#20 & #29 were not found in our accounting records. Mapping has confirmed that this was an error."[13] As it relates to sample 1 of the Additional 2014 CWT request, no supporting documentation was received in response to the February 27, 2023, follow-up inquiry. According to 47 C.F.R. § 54.320(b) carriers are to retain all records required to demonstrate that the support received was consistent with the universal service high-cost program rules for a minimum of ten years from the receipt of funding. CLA audited disbursement year 2020 in 2022, which is still within the timeframe that documentation is required to be maintained. The Beneficiary, through its own verification, failed to maintain documentation that would allow for the full value of the assets sampled to be verified. As the Beneficiary could not provide documentation to support the full value of the assets sampled, CLA's position to remove the portion of costs unsupported remains unchanged.

[12] Beneficiary's response to the Summary of Exceptions, received April 10, 2023.

[13] Per Beneficiary's response to PBC 66a provided on August 26, 2022.

Finding #4: 47 C.F.R. § 51.917(d) – Inaccurate Interstate and Intrastate Revenue Reporting

CONDITION
CLA obtained and examined documentation, including the Beneficiary's billing reports, general ledger, and NECA CAF ICC True-Up statements, to determine whether the Beneficiary accurately reported payments earned for providing intrastate terminating switched access services. FCC Rules outline the mechanisms for eligible recovery for rate-of-return carriers, which include the reporting of switched access revenue.[14] CLA compared the Interstate and Intrastate Terminating Switch Access Revenue reported by the carrier for the period July 1, 2018, to June 30, 2019, to the amounts recorded in the Beneficiary's general ledger and noted the following variances:

Revenue	Revenue Reported for CAF ICC Support (A)	Revenue Recorded in General Ledger (B)	(Overstated)/Understated Revenue (C=B-A)
Intrastate Revenue	$299	$130,738	$130,439
Interstate Revenue	$523,810	$538,314	$14,504

CAUSE
The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate intrastate and interstate revenues for High Cost program purposes. The Beneficiary stated they had a change in personnel that caused the data to be reported inaccurately.[15]

EFFECT
CLA calculated the monetary effect of this finding by adding $130,439 and $14,504 to the Beneficiary's Interstate and Intrastate Revenues reported for Program Year July 2018 – June 2019, respectively. CLA summarized the impact of this finding relative to disbursements made from the High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	-
HCL	-
CAF ICC	$16,005
Total	**$16,005[16]**

RECOMMENDATION
We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We recommend the Beneficiary implement policies and procedures to ensure that it has an adequate system in place to report accurate revenue data in its High Cost program filings for CAF ICC support.

[14] *See* 47 CFR § 51.917(d) (2018).
[15] Beneficiary's response to the Summary of Exceptions, received April 10, 2023.
[16] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes $16,005 in improper disbursements were made during the subsequent period. This amount represents the entire amount of CAF ICC support received for the True-Up period July 1, 2018, to June 30, 2019, as the inclusion of the under reported revenue resulted in the Beneficiary not being eligible for support for the period.

BENEFICIARY RESPONSE

The Beneficiary agrees to make corrections and implement controls to improve accuracy to be in full compliance with 47 C.F.R. § 51.917(d).

Finding #5: 47 C.F.R. § 51.917(d): - Inaccurate Reporting of End User Line Port Revenue.

CONDITION

CLA obtained and examined documentation, including the Beneficiary's Broadband Loop Support Form 508 & 509 Certificates and general ledger, to determine whether the Beneficiary accurately reported end user line port revenue for the year 2018. FCC Rules outline the mechanisms for eligible recovery for rate-of-return carriers, and require carriers to report revenue received from end user line port charges.[17] However, instead of reporting the revenue the Beneficiary reported the line count. This resulted in a significant under-reporting of revenue as detailed in the below table:

Calendar Year	Revenue Reported on Form 509 (A)	Revenue Recorded in General Ledger (B)	(Overstated)/Understated Revenue (C=B-A)
2017	$213	$156,543	$156,330
2018	$171	$148,969	$148,798

CAUSE

The Beneficiary did not have an adequate system in place to ensure revenue lines are recorded from the appropriate sources for High Cost program purposes. The Beneficiary stated this was an oversight and was discovered and corrected for future filings.[18]

EFFECT

CLA calculated the monetary effect of this finding by adding $156,330 and $148,798 to the Beneficiary's end user line port revenue reported on Form 509 for calendar year's 2017 and 2018, respectively. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$152,564
HCL	-
CAF ICC	-
Total	**$152,564**[19]

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We recommend the Beneficiary implement policies and procedures to ensure that it has an adequate system in place to report accurate end user line port revenue data in its High Cost program filings.

BENEFICIARY RESPONSE

The Beneficiary has taken actions to correct the line port reporting issues involved in this finding.

[17] *See* 47 CFR § 51.917(d) (2018).

[18] Beneficiary's response to the Summary of Exceptions, received April 10, 2023.

[19] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes at least $152,564 in improper disbursements were made in prior and subsequent periods.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R 32.2000(g)(1)-(2) (2018)	(g) Depreciation accounting - (1) Computation of depreciation rates. (i) Unless otherwise provided by the Commission, either through prior approval or upon prescription by the Commission, depreciation percentage rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property. (ii) In the event any composite percentage rate becomes no longer applicable, revised composite percentage rates shall be computed in accordance with paragraph (g)(1)(i) of this section. (iii) The company shall keep such records of property and property retirements as will allow the determination of the service life of property which has been retired, or facilitate the determination of service life indications by mortality, turnover, or other appropriate methods. Such records will also allow the determination of the percentage of salvage value and cost of removal for property retired from each class of depreciable plant. (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

Finding	Criteria	Description
		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.
#2	47 C.F.R. § 64.901(b) (2018)	(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

Finding	Criteria	Description
		between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. (4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.
#3	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.
#4, #5	47 C.F.R. § 51.917(d) (2018)	(d) Eligible Recovery for Rate-of-Return Carriers. (1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section. (i) Beginning July 1, 2012, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011

Finding	Criteria	Description
		Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012, using the target methodology required by § 51.705. (ii) Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013, using the target methodology required by § 51.705.
		(iii) Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition

Finding	Criteria	Description
		contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014, using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012. (D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012, multiplied by negative one. (iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year. (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year.
		(vi) If a Rate-of-Return Carrier receives or makes reciprocal compensation payments after the period used to measure the adjustments to reflect the differences between estimated and actual net reciprocal compensation revenues, it shall treat such amounts as actual revenues or payments in the year the payment is received or made and shall reflect this as an additional adjustment for that year.

Finding	Criteria	Description
		(vii) If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to § 51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism. (viii) (A) If a Rate-of-Return Carrier in any tariff period underestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), and thus has too much Eligible Recovery in that tariff period, it shall refund the amount of any such True-up Revenues or True-up Revenues for Access Recovery Charge that are not offset by the Rate-of-Return Carrier's Eligible Recovery (calculated before including the true-up amounts in the Eligible Recovery calculation) in the true-up tariff period to the Administrator by August 1 following the date of the Rate-of-Return Carrier's annual access tariff filing. (B) If a Rate-of-Return Carrier in any tariff period receives too little Eligible Recovery because it overestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), which True-up Revenues and True-up Revenues for Access Recovery Charge it cannot recover in the true-up tariff period because the Rate-of-Return Carrier has a negative Eligible Recovery in the true-up tariff period (before calculating the true-up amount in the Eligible Recovery calculation), the Rate-of-Return Carrier shall treat the unrecoverable true-up amount as its Eligible Recovery for the true-up tariff period.

Attachment Q

HC2022LR016

Harrisonville Telephone Company

Limited Review Performance Audit on

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

USAC Audit No. HC2022LR016

Prepared For:

Universal Service Administrative Company

May 26, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

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CliftonLarsonAllen LLP
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EXECUTIVE SUMMARY

May 26, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Harrisonville Telephone Company (Beneficiary or HTC) doing business as HTC Holding Co, study area code **341026** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from May 16, 2022, to May 26, 2023.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
May 26, 2023

AUDIT RESULTS AND RECOVERY ACTION

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

	Monetary Effects				
Audit Results	**CAF BLS**	**HCL**	**CAF ICC**	**Total**	**Recommended Recovery**
Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary reported incorrect depreciation expense amounts in its reporting for High Cost program purposes.	($546,612)	($377,162)	-	($923,774)	$-
Finding #2: 47 C.F.R. § 51.917{d)(l)(v) – Inaccurate Revenue Reporting: Transitional Interstate Access Service Revenue. The Beneficiary underreported Transitional Interstate Access Service Revenue.	-	-	$4,053	$4,053	$4,053
Finding #3: 47 C.F.R. § 54.7(a) – Improper Inclusion for Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support. The Beneficiary included non-regulated costs in its cost study balances reported for High Cost program purpose.	$5,559	$5	-	$5,564	$5,564
Total	($541,053)	($377,157)	$4,053	($914,157)	$9,617

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 341026, 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	($546,612)	($377,162)	-	($923,774)	N/A
Finding #2	-	-	$4,053	$4,053	N/A
Finding #3	$5,559	$5	-	$5,564	N/A
Total	($541,053)	($377,157)	$4,053	($914,157)	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

Harrisonville Telephone Company is a cost-based eligible telecommunications carrier (ETC) that provides service to approximately 15,000 subscribers in the Southwest region of Illinois. The Beneficiary is a provider of phone, internet, web hosting, and voicemail services to residential and business customers. The Beneficiary is wholly owned by HTC Holding Co., which also owns 100% of HTC Communications Co. and HTC Technologies Co.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

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

SCOPE

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$3,259,164
High Cost Loop (HCL)	2018	2020	$203,819
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$926,988
		Total	**$4,389,971**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Fixed Assets

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

D. Operating Expenses

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

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

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

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation.

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High-Cost program purposes. 47 C.F.R. § 32.2000(g)(2)(iii) requires that depreciation is performed using the average of each month's beginning and ending balances for each asset account.[1] CLA determined that the Beneficiary calculated depreciation for financial reporting purposes on the straight-line method. However, due to the limitations of the Beneficiary's fixed assets software, the Beneficiary calculated the total depreciation on annual basis. To determine the monthly depreciation, the Beneficiary divided the annual depreciable value by 12. As the months progress and assets are placed in service or disposed of, the annual depreciable amount is updated per the fixed asset software. The depreciation for the ongoing months is recalculated and compared to the prior amount booked to give the Beneficiary the current depreciation expense to book for that particular month. In addition, the depreciation is calculated on an asset by asset basis, not on a general ledger account as a whole. For instance, within account 2121, some assets may be depreciated over a 39-year life, versus some being at a 15-year life. Also, for some assets, the Beneficiary used depreciation rates that were lower than the depreciation rates based on the useful life of the assets. The Beneficiary adjust the depreciation rates as needed so the rates would be increased or decreased to reflect the expected remaining life of the assets most accurately.

While the Beneficiary's methodology was acceptable based on an annual audit from an independent auditing firm and GAAP, it was not in accordance was with the rule 47 C.F.R. § 32.2000(g)(2)(iii). CLA recalculated the Beneficiary's depreciation expense for all asset accounts from January 2018 through June 2019. CLA re-calculated the depreciation, based on the general ledger, using the average of each month's beginning and ending balance. Based on our recalculation, CLA determined that the Beneficiary did not accurately calculate depreciation expense and accumulated depreciation for multiple asset categories.

CLA summarizes the differences between the recalculated twelve months of depreciation expenses as of December 31, 2018, using the average of the beginning and ending balance of each month and the amount submitted for High Cost program CAF BLS and HCL support are presented below:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance Over/(Under) Reported (A-B)
Period of January 1, 2018, December 31, 2018			
Accumulated Depreciation (Acct 3100)	$74,594,059	$76,790,642	($2,196,583)
Depreciation Expense – Support Assets (Acct 6560-2110)	$547,984	$865,740	($317,756)
Accumulated Depreciation – Support Assets (Acct 3100-2110)	$6,946,405	$7,264,161	($317,756)

[1] *See* 47 CFR 32.2000(g)(2)(iii) (2018)

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance Over/(Under) Reported (A-B)
Period of January 1, 2018, December 31, 2018			
Depreciation Expense – Switching (Acct 6560-2210)	$181,598	$616,436	($434,838)
Accumulated Depreciation – Switching (Acct 3100-2210)	$8,949,500	$9,384,338	($434,838)
Depreciation Expense – Transmission (Acct 6560-2230)	$605,948	$1,335,871	($729,923)
Accumulated Depreciation – Transmission (Acct 3100-2230)	$11,433,499	$12,163,422	($729,923)
Depreciation Expense - CWF (Acct 6560-2410)	$2,220,458	$2,934,524	($714,066)
Accumulated Depreciation - CWF (Acct 3100-2410)	$47,264,656	$47,978,722	($714,066)

CLA summarizes the differences between the recalculated twelve months of depreciation expenses as of June 30, 2019, using the average of the beginning and ending balance of each month and the amount submitted for High-Cost program HCL support are presented below:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance Over/(Under) Reported (A-B)
Period of July 1, 2018 - June 30, 2019			
Accumulated Depreciation (Acct 3100)	$69,000,589	$71,139,104	($2,138,515)
Depreciation Expense – Support Assets (Acct 6560-2110)	$550,220	$881,129	($330,909)
Accumulated Depreciation – Support Assets (Acct 3100-2110)	$7,081,342	$7,412,251	($330,909)
Depreciation Expense – Switching (Acct 6560-2210)	$173,065	$526,625	($353,560)
Accumulated Depreciation – Switching (Acct 3100-2210)	$2,180,257	$2,533,817	($353,560)
Depreciation Expense – Transmission (Acct 6560-2230)	$624,905	$1,334,147	($709,242)
Accumulated Depreciation – Transmission (Acct 3100-2230)	$11,404,696	$12,113,938	($709,242)
Depreciation Expense - CWF (Acct 6560-2410)	$2,256,513	$3,001,318	($744,805)
Accumulated Depreciation - CWF (Acct 3100-2410)	$48,334,293	$49,079,098	($744,805)

CAUSE

The Beneficiary misinterpreted the Rule C.F.R. §32.2000(g)(2) to calculate depreciation expense and accumulated depreciation.

EFFECT

CLA calculated the monetary effect of this finding for the periods ending December 31, 2018, and June 30, 2019, by adding the variance amounts to the Accumulated Depreciation and Depreciation Expense amounts reported in the Beneficiary's High Cost program filings for both periods. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$(546,612)
HCL	$(377,162)
CAF ICC	-
Total	**$(923,774)**

RECOMMENDATION

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

BENEFICIARY RESPONSE

HTC utilizes a depreciation method acceptable under GAAP for financial reporting purposes on a straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. Certain GL accounts (2121 and 2124) include multiple assets with different service lives. HTC utilizes end of month balances to calculate depreciation. Monthly activity in the general ledger of the fixed asset accounts is reviewed; entered into the fixed asset software to agree with the general ledger; and then depreciation is recalculated for the subsequent month.

HTC does not utilize depreciation rates that are lower than the useful life of an asset, but rather, utilizes rates that are acceptable under GAAP. HTC does not adjust expected remaining service lives for assets once they are placed into service. Monthly depreciation expense is adjusted based on the current month activity in each plant account (additions, retirements, etc.), not due to an adjustment in depreciation rates.

The variance in the calculation of depreciation expense and accumulated depreciation reserve for the review period in question does not appear to be caused using different depreciation rates but by the application of those rates on an asset-by-asset basis.

HTC understands that CLA is recommending that no recovery is recommended for this finding as the finding is an underpayment of support. While HTC understands that the absolute value of all the exceptions that resulted in underpayments and overpayments must be reported for improper payment purposes, it is our understanding that the findings with overpayments will be netted against the findings with underpayments for recovery purposes. It is also our understanding that USAC does not disburse funds in cases where the net variance in High-Cost USF support results in an underpayment of funds. This process is inconsistent; it would seem that beneficiaries should be able to recover underpayments of funds if they are required to reimburse overpayments of funds.

CLA RESPONSE

The Beneficiary did not follow the FCC's rules, 47 C.F.R. § 32.2000(g)(2)(iii), which requires that depreciation is performed using the average of each month's beginning and ending balances for each asset account. In addition, pursuant to the §54.707 (a) Audit Controls: The Administrator shall have the authority to audit contributors and carriers reporting data to the Administrator. The Administrator shall establish procedures to verify discounts, offsets and support amounts provided by the universal service support programs, and may suspend or delay discounts, offsets, and support amounts provided to a carrier if the carrier fails to provide adequate verification of discounts, offsets, or support amounts provided upon reasonable request, or if directed by the Commission to do so.

Therefore, this finding remains. CLA recommended the Beneficiary to follow the rules in depreciation calculation going forward. CLA also recommends USAC to take action to ensure that the Carrier is complying with the Rules.

CLA follows USAC's policy to make recommendations on collection of funds in case of underpayment. CLA's recommendations will remain.

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

CONDITION

CLA obtained and examined documentation, including the Beneficiary's billing reports, general ledger, and NECA CAF ICC True-Up statements, to determine whether the Beneficiary accurately reported payments earned for providing interstate terminating access services. CLA determined that the Beneficiary did not report accurate transitional Interstate access switched service revenues. FCC rules require that a carrier who receives payments for interstate switched access services 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.[2]

The difference noted between the true-up actual amounts of Interstate Billed Switched Access Revenue for the program year 2017-2018 and the amounts recorded in the general ledger is summarized below:

Revenue	Program Year July 2017 – June 2018
Interstate Revenue Reported	$354,935
Billing Report/GL Interstate Revenue	$358,988
Interstate Revenue Difference	**($4,053)**

[2] *See* 47 CFR 51.917(d)(1)(v)(2018).

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

CAUSE

The Beneficiary informed us the true-up to actual for the 2017-2018 interstate switched access revenues in the Tariff Review Plan did not match the interstate switched access revenues booked to the general ledger during the same time period because the two revenue balances were not reconciled properly. It was mainly due to timing differences.

EFFECT

CLA calculated the monetary effect of this finding by adding $4,053 to the Beneficiary's Interstate Revenue reported for Program Years July 2017 – June 2018. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, is summarized in the table below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	-
HCL	-
CAF ICC	$4,053
Total	**$4,053**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We recommend the Beneficiary ensure that it has an adequate system in place to report data for CAF ICC purposes. CLA also recommends the Beneficiary perform a thorough and timely review process to reconcile revenues before being reported for High Cost purposes.

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

BENEFICIARY RESPONSE

HTC agrees that the underreporting of transitional interstate switched access revenues resulted in additional CAF ICC support being received during the 2017-2018 program year. To prevent this issue in the future, HTC has implemented additional review procedures to reconcile actual TY interstate switched access service revenues in the TRP to interstate switched access revenues booked to the general ledger during the same tariff period.

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

CONDITION

CLA obtained and examined the Beneficiary's general ledger for the periods ending December 31, 2018, and June 30, 2019, and supporting documentation such as invoices, contracts, and receipts to determine whether the Beneficiary excluded non-regulated costs from the account balances reported for High Cost program purposes. CLA also examined the documentation to determine whether High Cost program support was only used for the provision, maintenance, and upgrading of facilities and services for which the support is intended, in accordance with regulations[3], FCC Order 15-133[4] and further clarified by FCC Order 18-29[5]. CLA determined that the Beneficiary included non-regulated costs in its High Cost program filings.

Utilizing data analytical tools, CLA identified 81 general ledger transactions totaling $21,408 for the twelve months ended December 31, 2018, and 59 general ledger transactions totaling $11,279 for the twelve months ended June 30, 2019, which were not incurred for the provision, maintenance, and upgrading of facilities and services and should therefore have been excluded from regulated balances but were not. Additionally, CLA selected a random sample of 14 transactions totaling $283,856 from the data analytical results for testing. Of these 14 samples, CLA determined that 3 samples totaling $650 were not incurred for intended purpose of the Program. The types of transactions that were deemed unallowable related to sponsorships, contribution to the carrier's local schools and community events, promotional expenses, dinners, golf tournaments and other community outreach-based expenses.

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

Account	**As Reported in Part 64 (A)**	**Unallowable Expenses (B)**	**Recalculated Balance (A) – (B)**
Period of January 1, 2018 - December 31, 2018			
General Support (Acct 6120)	$668,058	$81	$667,977
Marketing (Acct 6610)	$380,131	$17,574	$362,557
General and Administrative (Acct 6720)	$2,082,242	$4,403	$2,077,839
Period of July 1, 2018 – June 30, 2019			
Marketing (Acct 6610)	$375,763	$9,815	$365,948
General and Administrative (Acct 6720)	$2,098,330	$1,464	$2,096,866

<u>CAUSE</u>
The Beneficiary inadvertently included expenses that should have been excluded. The Beneficiary informed us of this issue.

<u>EFFECT</u>
CLA calculated the monetary effect of this finding by subtracting the identified unallowable expenses in the table above from the account balances reported for both periods in the Beneficiary's High Cost program filings. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2018, and June 30, 2019, is summarized in the table below.

[3] *See* 47 CFR 54.7(a) (2018).
[4] *See FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2015).
[5] *See Connect America Fund, et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (2018).

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$5,559
HCL	$5
CAF ICC	-
Total	**$5,564**

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

BENEFICIARY RESPONSE

HTC agrees that certain ineligible expenses were included in the NECA cost studies and USF data collection submissions during the period under review which generated additional CAF BLS and HCL support. In order to prevent this issue in the future, HTC has implemented an annual review procedure to exclude ineligible expenses for High Cost support based on FCC 18-29 and examples of excluded expenses provided by USAC and NECA.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2) (2018)	***Depreciation charges***. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.
#2	47 C.F.R. § 51.917(d) (2018)	***Eligible Recovery for Rate-of-Return Carriers***. (1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may

		recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section. (i) Beginning July 1, 2012, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012, using the target methodology required by § 51.705. (ii) Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013, using the target methodology required by § 51.705. (iii) Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:

		(A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014, using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012. (D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012, multiplied by negative one. (iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year. (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year. (vi) If a Rate-of-Return Carrier receives or makes reciprocal compensation payments after the period used to measure the adjustments to reflect the differences between estimated and actual net reciprocal compensation revenues, it shall treat

		such amounts as actual revenues or payments in the year the payment is received or made and shall reflect this as an additional adjustment for that year. (vii) If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to § 51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism. (viii) (A) If a Rate-of-Return Carrier in any tariff period underestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), and thus has too much Eligible Recovery in that tariff period, it shall refund the amount of any such True-up Revenues or True-up Revenues for Access Recovery Charge that are not offset by the Rate-of-Return Carrier's Eligible Recovery (calculated before including the true-up amounts in the Eligible Recovery calculation) in the true-up tariff period to the Administrator by August 1 following the date of the Rate-of-Return Carrier's annual access tariff filing. (B) If a Rate-of-Return Carrier in any tariff period receives too little Eligible Recovery because it overestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), which True-up Revenues and True-up Revenues for Access Recovery Charge it cannot recover in the true-up tariff period because the Rate-of-Return Carrier has a negative Eligible Recovery in the true-up tariff period (before calculating the true-up amount in the Eligible Recovery calculation), the Rate-of-Return Carrier shall treat the unrecoverable true-up amount as its Eligible Recovery for the true-up tariff period.

#3	47 C.F.R. § 54.7(a) (2018)	**Intended use of federal universal service support** A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#3	FCC 15-133: *FCC Reminds ETCs of High Cost Support Requirements,* WC Docket No. 10-90, WC Docket No. 14-58, Public Notice.	Under federal law, high-cost support provided to an ETC must be used "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and • Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.
#3	FCC 18-29: *Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, 33 FCC Rcd 2990, 2994, para. 10 (2018).*	19. Personal Expenses.—Initially, we codify the existing prohibition on recovery from the high-cost program for personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for personal travel, personal vehicles, housing, such as rent, mortgages, or housing allowances, childcare, employee gifts, and entertainment-related expenses including food and beverage, regardless of whether

		such expenses are paid directly by the individual or indirectly by the carrier in the form of allowances or gifts. Personal expenses are clearly not used for the provision of supported services and thus may not be recovered through high-cost support. Furthermore, we caution recipients of high-cost support that recovering these types of expenses from high-cost support may constitute outright fraud, waste, and abuse on the Fund, subjecting employees, executives, and board members to personal civil and criminal liability. 20. The Commission already explicitly excludes personal travel expenses from high-cost support recovery. Personal travel expenses include airfare, car rentals, gas, lodging, and meals for personal use. Commenters overwhelmingly agree that personal travel is unrelated to the provision of a supported service and may not be recovered through high-cost support. In response to concerns raised by commenters, we find that, in contrast to personal travel expenses, reasonable work-related travel expenses are recoverable to the extent they are used for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended. For example, if an ETC's technician travels to repair a supported facility and such travel requires overnight accommodation, the ETC may recover that employee's reasonable hotel costs. 25. It is undisputed that gifts to employees may not be recovered through high-cost support. Gifts to employees are unrelated to the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended, and therefore are excluded from high-cost support. 26. Entertainment and food and beverage expenses, including but not limited to expenses incurred for meals to celebrate personal events, such as weddings, births, or retirements, are explicitly not recoverable through high-cost support.66 Some commenters agree that entertainment expenses in particular have not been recoverable in the past. Other commenters disagree, claiming that recovering entertainment expenses incurred for "client or vendor meetings, or attendance at board meetings" is a "common and accepted practice." Some commenters maintain that they should be able to include food and beverage and entertainment expenses related to annual

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

		and services for which support is intended." Below we find that various expenses unrelated to operations, including various Account 7300 nonoperating expenses, do not satisfy this standard and, thus, may not be recovered from high cost support. 31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support. We recognize the benefits charitable donations provided to the community, as raised by multiple commenters. However, charitable donations are unrelated to the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended. 32. Membership fees and dues in clubs and organizations, including social, service, and recreational or athletic clubs and organizations, as well as trade associations and organizations that provide professional or trade certifications such as state bar associations, are expenses unrelated to operations excluded from high-cost support. Commenters agree that these expenses related to social and recreational clubs and organizations are already excluded from high-cost support recovery. But those same and other commenters also argue that membership fees and dues in trade associations, chambers of commerce, state bar associations and professional certifications for specialized employees should be recoverable. We recognize the educational and training benefits that trade associations provide and that membership in chambers of commerce may help stimulate business. However, as other commenters acknowledge, a function of many of these organizations is advocacy on behalf of their members for the purpose of influencing public policy which is not used for the provision, maintenance, and upgrading of facilities and services for which support is intended. Just as ETCs may not recover lobbying expenses under our rules, similarly, they may not recover membership fees in organizations that engage in lobbying. Further, professional affiliations or certifications such as state bar associations, accounting associations, or other professional groups may facilitate general corporate functions but are not used only for the provision of supported facilities and services.

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Marquette-Adams Telephone Cooperative **Attachment R**	8	• **Inaccurate Continuing Property Records (CPRs)** The Beneficiary's CPRs did not accurately reflect the actual quantity of assets in service.	$3,266,084	$168,747	$168,747	N
Beehive Telephone Company **Attachment S**	0	• No audit findings.	$1,890,720	$0	$0	N/A
Citizens Telephone Corporation **Attachment T**	0	• No audit findings.	$1,118,610	$0	$0	N/A
Total	**8**		**$6,275,414**	**$168,747**	**$168,747**	

Attachment R

HC2022LR017

Marquette-Adams Telephone Cooperative

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

USAC Audit ID No. HC2022LR017

Prepared For:

Universal Service Administrative Company

September 16, 2022

CPAs | CONSULTANTS | WEALTH ADVISORS

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EXECUTIVE SUMMARY

September 16, 2022

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Marquette-Adams Telephone Cooperative (Beneficiary), study area code **330908** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from February 24 to September 16, 2022.

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

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
September 16, 2022

AUDIT RESULTS AND RECOVERY ACTION

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

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
Finding #1: 47 C.F.R. § 32.27 – Improper Valuation of Affiliate Transactions The Beneficiary improperly valued an asset transfer with its affiliate at fully distributed cost.	$ 16,985	$30,849	-	$47,834	$47,834
Finding #2: 47 C.F.R. § 32.2000 (e),(f)(1)-(2) - Inaccurate Continuing Property Records The Beneficiary's Continuing Property Record did not accurately reflect the actual quantity of asset in service.	$15,035	$36,357	-	$51,392	$51,392
Finding #3: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support The Beneficiary included expenses not related to the provision, maintenance, and upgrade of telecommunication facilities.	$9,727	$14,242	-	$23,969	$23,969
Finding #4: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets The Beneficiary failed to maintain documentation to support the assets valuation.	$6,084	$14,706	-	$20,790	$20,790
Finding #5: 47 C.F.R. § 32.6112 - Improper Distribution of Overhead Expenses The Beneficiary's vehicle clearing process improperly cleared vehicle expense to customer operations expenses, corporate	$3,383	$15,553	-	$18,936	$18,936

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
operations expenses, and plant non-specific accounts.					
Finding #6: 47 C.F.R. § 64.901(b) - Improper Inclusion of Non-Regulated Assets The Beneficiary improperly allocated the cost associated to dark fiber investment.	$4,454	$10,479	-	$14,933	$14,933
Finding #7: 47 C.F.R. § 51.917(d) - Inaccurate True-Up Adjustment: Exogenous Cost The Beneficiary overstated its exogenous cost due to inconsistencies with the Beneficiary's process to calculate costs.	-	-	$640	$640	$640
Finding #8: 47 C.F.R. § 64.901 - Improper Inclusion of Non-Regulated Amounts The Beneficiary's cost study adjustment for land and support assets was miscalculated.	$3,406	($13,153)	-	($9,747)	$0
Total	**$59,074**	**$109,033**	**$640**	**$168,747**	**$178,494**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SAC **330908** and will seek recovery from the Beneficiary for the High Cost program support amount noted in the chart below.

Regarding Finding's 1, 2, & 8, USAC Management requires the Beneficiary to be placed on a Corrective Action Plan (CAP) to address lack of documentation and data retention procedures. As part of the CAP, the Beneficiary must report to High Cost Management, within 60 days of the date of the Recovery Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

The Beneficiary must implement policies and procedures necessary to comply with the 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	$16,985	$30,849	-	$47,834	N/A
Finding #2	$15,035	$36,357	-	$51,392	N/A
Finding #3	$9,727	$14,242	-	$23,969	N/A
Finding #4	$6,084	$14,706	-	$20,790	N/A
Finding #5	$3,383	$15,553	-	$18,936	N/A
Finding #6	$4,454	$10,479	-	$14,933	N/A
Finding #7	-	-	$640	$640	N/A
Finding #8	$3,406	($13,153)	-	($9,747)	N/A
Total	**$59,074**	**$109,033**	**$640**	**$168,747**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Wisconsin. The Beneficiary also provides non-regulated services including internet, video, and long-distance services.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High Cost Support	Date Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$1,454,502
High Cost Loop (HCL)	2018-2019	2020	$1,609,052
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$202,530
Total			**$3,266,084**

PROCEDURES
We performed the following procedures:

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

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

C. Fixed Assets
We obtained and examined the Beneficiary's continuing property records (CPRs) work orders, invoices, and related documentation 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 the balances to the balances utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.27(b) - Improper Valuation of Affiliate Transaction

CONDITION

CLA obtained and examined documentation including lease agreements, invoices, and related documentation to determine whether the Beneficiary properly recorded its affiliate transactions. CLA determined the Beneficiary had two transaction types with affiliates consisting of vehicles being leased to the Beneficiary, and billing and collection services provided to the affiliate. FCC Rules require the Beneficiary's documentation should support the pricing of the affiliate transaction based on market values and rates at the time the transaction took place.[1] CLA selected a non-statistical, judgmental sample transaction from each type to review and identified non-compliance with the FCC Rules governing affiliate transactions for one of the two samples, as follows.

The Beneficiary leased plant vehicles from their affiliate, with a total annual value of $161,098 and $194,971 for their December 31, 2018, and September 30, 2019, High Cost Program filings, respectively. The transaction is an asset transfer of less than $500,000 in value between the Beneficiary and its affiliate and thus, the transaction was to be recorded at net book cost. However, per review of support, the Beneficiary's valuation of the transaction was recorded at fully distributed cost. As a result, the Beneficiary overstated its account balances reported in the High Cost program filings as follows:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance (Over)/Under Reported (B-A)
Period of January 1, 2018 - December 31, 2018			
Cable and Wire Facilities (Acct 2410)	$20,999,173	$20,997,012	($2,161)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,440,459	$7,439,736	($723)
General Support (Acct 6120)	$115,269	$113,626	($1,643)
Central Office Switching (Acct 6210)	$69,721	$68,463	($1,258)
Central Office Transmission (Acct 6230)	$482,099	$467,532	($14,567)
Information Origination/Termination (Acct 6310)	($2,056)	($9,042)	($6,986)
Cable and Wire Facilities (Acct 6410)	$217,239	$212,381	($4,858)
Other property plant and equipment (Acct 6510)	$2,094	$2,014	($80)
Network Operations (Acct 6530)	$735,867	$715,932	($19,935)
Depreciation Expense (Acct 6560_2410)	$853,499	$852,776	($723)
Marketing (Acct 6610)	$83,151	$80,484	($2,667)
Services (Acct 6620)	$414,058	$400,251	($13,807)
General and Administrative (Acct 6720)	$827,136	$806,983	($20,153)
Cable and Wire Facilities (DL700)	$20,999,173	$20,997,012	($2,161)

[1] 47 C.F.R. § 32.27(b) (2018).

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance (Over)/Under Reported (B-A)
Category 1 Investment for Cable and Wire (DL710)	$20,663,081	$20,660,955	($2,126)
Period of April 1, 2018 – March 31, 2019			
Cable and Wire Facilities (Acct 2410)	$21,001,574	$20,999,357	($2,217)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,659,475	$7,658,666	($809)
General Support (Acct 6120)	$117,561	$115,578	($1,983)
Central Office Switching (Acct 6210)	$64,277	$63,126	($1,151)
Central Office Transmission (Acct 6230)	$521,071	$505,133	($15,938)
Cable and Wire Facilities (Acct 6410)	$231,690	$226,264	($5,426)
Network Operations (Acct 6530)	$742,669	$722,173	($20,496)
Depreciation Expense (Acct 6560_2410)	$854,433	$853,624	($809)
General and Administrative (Acct 6720)	$813,540	$792,299	($21,241)
Cable and Wire Facilities (DL700)	$21,001,574	$20,999,357	($2,217)
Category 1 Investment for Cable and Wire (DL710)	$20,665,483	$20,663,301	($2,182)
Period of October 31, 2018 – September 30, 2019			
Cable and Wire Facilities (Acct 2410)	$21,043,508	$21,040,839	($2,669)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$8,097,273	$8,096,246	($1,027)
General Support (Acct 6120)	$123,052	$121,378	($1,674)
Central Office Switching (Acct 6210)	$67,303	$65,822	($1,481)
Central Office Transmission (Acct 6230)	$525,035	$508,048	($16,987)
Cable and Wire Facilities (Acct 6410)	$267,383	$262,221	($5,162)
Network Operations (Acct 6530)	$733,830	$711,470	($22,360)
Depreciation Expense (Acct 6560_2410)	$856,521	$855,494	($1,027)
General and Administrative (Acct 6720)	$836,753	$813,207	($23,546)
Cable and Wire Facilities (DL700)	$21,043,508	$21,040,839	($2,669)
Category 1 Investment for Cable and Wire (DL710)	$20,707,416	$20,704,790	($2,626)

CAUSE

The Beneficiary lacked adequate policies and procedures to ensure transactions with affiliated entities are properly valued in accordance with the FCC Rules. The Beneficiary informed CLA that they did not have a full understanding of the rules during the audit period and that the Beneficiary is updating its procedures to ensure proper pricing of affiliate transactions.[2]

[2] Beneficiary's response to the Summary of Exceptions, received October 25, 2022.

EFFECT

CLA calculated the monetary effect of this finding by removing the overstated account balances from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively.[3] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$16,985
HCL	$30,849
CAF ICC	$0
Total	**$47,834**[4]

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 High Cost Program purposes as well as perform timely review of the system to ensure the system is functioning properly.

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

BENEFICIARY RESPONSE

We understand that this affiliated transaction was not appropriately valued at net book cost. We will revalue this transaction to reflect an appropriate depreciation rate on the affiliate assets, and to reflect an appropriate expense calculation on the ILEC books.

Finding #2: 47 C.F.R. § 32.2000 (e)(f)(1)(2) - Inaccurate Continuing Property Records

CONDITION

CLA obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) Continuing Property Records (CPR) for their December 31, 2018, and September 30, 2019, High Cost Program filings and judgmentally selected samples to determine whether the existence, classification, and categorization of investments were accurately reported for High Cost purposes. FCC rules require establishing and maintaining accurate property records.[5] During the site visit, CLA verified footages of buried fiber optic (BFO) to complete its existence testing and for two assets, only a portion of the entire footage sampled from the CPR was supported in the field. Thus, CLA concludes that the Beneficiary contained inaccurate CPRs for their CWF account balance (account 2410) as reported in its High Cost filings. See details in table below:

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[3] Please see the Variance Over/(Under) Reported column in the above table for each account and data periods respective adjustments utilized for recalculation of High Cost Program support.

[4] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes the Beneficiary has been utilizing the fully distributed cost method to value this lease transaction since the lease agreement was entered into between the parties in April of 2012, and thus improper disbursements may have occurred in prior periods.

[5] 47 C.F.R. § 32.2000(e),(f)(1)-(2) (2018).

Table 2-1: Calculation of Sample Unsupported							
Sample #	**Asset Sampled**	**Sample Footage Observed (In Feet (ft))**	**Sample Footage per CPR (In Feet (ft))**	**Variance**	**% Of Sample Unsupported**	**Total Value of Sample**	**Un-supported Sample Amount**
22	BFO 144	21,060	22,952	(1,892)	8%	$502,606	$40,208
41	BFO 72	35,063	72,702	(37,639)	52%	$934,420	$485,898

Table 2-2: Unsupported Account Balances			
Account	**As Reported in Part 64 (A)**	**Unsupported Balance (B)**	**Recalculated Balance (A) + (B)**
Period of January 1, 2018 - December 31, 2018			
Cable and Wire Facilities (Acct 2410)	$20,999,173	($526,107)	$20,473,066
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,440,459	($186,411)	$7,254,048
Buried Cable Expense (Acct 6410)	$217,239	($5,443)	$211,796
Depreciation Expense (Acct 6560_2410)	$853,499	($21,383)	$832,116
Cable and Wire Facilities (DL700)	$20,999,173	($526,107)	$20,473,066
Category 1 Investment for Cable and Wire (DL710)	$20,663,081	($517,686)	$20,145,395
Period of April 01, 2018 - March 31, 2019			
Cable and Wire Facilities (Acct 2410)	$21,001,574	($526,107)	$20,475,467
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,659,475	($191,876)	$7,467,599
Buried Cable Expense (Acct 6410)	$231,690	($5,804)	$225,886
Depreciation Expense (Acct 6560_2410)	$854,433	($21,404)	$833,029
Cable and Wire Facilities (DL700)	$21,001,574	($526,107)	$20,475,467
Category 1 Investment for Cable and Wire (DL710)	$20,665,483	($517,687)	$20,147,796
Period of October 1, 2018 - September 30, 2019			
Cable and Wire Facilities (Acct 2410)	$21,043,508	($526,107)	$20,517,401
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$8,097,273	($202,439)	$7,894,834
Buried Cable Expense (Acct 6410)	$267,383	($6,685)	$260,698
Depreciation Expense (Acct 6560_2410)	$856,521	($21,414)	$835,107
Cable and Wire Facilities (DL700)	$21,043,508	($526,107)	$20,517,401
Category 1 Investment for Cable and Wire (DL710)	$20,707,416	($517,704)	$20,189,712

Table 2-3: Impact on Cable and Wire Facilities Categorization[6]			
Category	**Original Part 36 Balance**	**Unsupported Balance**	**Revised Part 36**
Category 1	$20,628,851	($517,952)	$20,110,899
Category 2 – Wideband Trunk	$294,144	($7,385)	$286,759
Category 2 – Wideband Direct	$19,145	($481)	$18,664
Category 3 – Joint Message x/Wideband	$5,722	($144)	$5,578
Category 3 – Private Line and Local x/Wideband	$1,560	($39)	$1,521
Category 3 – Direct Assignment	$4,234	($106)	$4,128
Total	**$20,953,656**	**($526,107)**	**$20,427,549**

CAUSE

The Beneficiary lacked adequate policies and procedures to ensure that the CPR utilized for High Cost Program support accurately reflects the assets placed into service. The Beneficiary informed CLA this was a result of a combination of inadequate retention policies and procedures, employee turnover, and a change in outside consulting professionals. The Beneficiary is in the process of revising its policies and procedures to ensure record retention of all asset documentation is in accordance with FCC rules.[7]

EFFECT

CLA calculated the monetary effect of this finding by removing the unsupported balances per account from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively.[8] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$15,035
HCL	$36,357
CAF ICC	$0
Total	**$51,392**

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 and to ensure it retains documentation to demonstrate compliance with the rules related to the High Cost Program.

6 Reported balances for Cable and Wire Facilities Categorization for 2020 High Cost Program disbursements are only reported as of December 31, 2018. Additionally, the balances are reported as an average balance, thus the balances reported for Category 1 for Tables 2-2 and 2-3 are different.

7 Beneficiary's response to the Summary of Exceptions, received October 25, 2022.

8 See the Unsupported Balance column in Table 2-2 above for each account and data periods respective adjustments utilized for recalculation of High Cost Program support.

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

BENEFICIARY RESPONSE

A lack of information in our records hampered our ability to reconcile our property records to our mapping system, leading to problems locating the assets in the field. We will update our record keeping procedures to identify all assets accurately.

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

CONDITION

CLA obtained and examined the Beneficiary's general ledger and supporting documentation for the December 31, 2018, and September 30, 2019, High Cost Program filings for expenses to determine whether High Cost Program support was only used for the provision, maintenance, or upgrading of facilities and services for which the support was intended.[9] The FCC rules provide a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support.[10]

CLA found the Beneficiary did not exclude 24 expense transactions for the December 31, 2018 filing period totaling $32,863, 22 expense transactions for the March 31, 2019 filing period totaling $30,083 and 19 expense transactions for the September 30, 2019 filing period totaling $25,097 related to legal retainer, gifts, memberships, dues, subscriptions, donations, scholarships etc., that were not necessary for the provision, maintenance, and upgrading of facilities.[11]

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

Account	As Reported in Part 64 (A)	Unallowable Expenses (B)		Recalculated Balance (A) + (B)
Period of January 1, 2018 - December 31, 2018				
Buried Cable Expense (Acct 6410)	$217,239	($20,036)		$197,203
General Admin. Expense (Acct 6720)	$827,136	($12,828)		$814,308
Period of April 01, 2018 - March 31, 2019				
Buried Cable Expense (Acct 6410)	$231,690	($20,036)		$211,654
General Admin. Expense (Acct 6720)	$813,540	($10,047)		$803,493

9 47 C.F.R. § 54.7(a) (2018).

10 *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 Rcd 2990, 2994, paras. 17-41 (2018); *FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 11821, 11822 (2015); *see also* 47 U.S.C. § 254(e).

11 *Id.*

Account	As Reported in Part 64 (A)	Unallowable Expenses (B)		Recalculated Balance (A) + (B)
	Period of October 1, 2018 - September 30, 2019			
Buried Cable Expense (Acct 6410)	$267,383	($20,036)		$247,347
General Admin. Expense (Acct 6720)	$836,753	($5,190)		$831,563

CLA clarifies that while FCC 18-29 was released during the audit's data period, FCC 15-33 was released prior to the audit period. Additionally, the FCC rule effective during the audit period states, "a carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[12] Thus, the Beneficiary should have removed the entire value of these unallowable transactions during its cost study process.

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

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude unallowable expenses from the amounts reported for High Cost Program purposes. The Beneficiary explained that FCC 18-29 was codified and effective May 31, 2018, and in response to the publication of FCC 18-29, every effort was made to identify and remove expenses identified in the order. The Beneficiary acknowledged that some expenses were inadvertently included.[13]

EFFECT

CLA calculated the monetary effect of this finding by removing $20,036 of Buried Cable Expenses from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively. Additionally, $12,828, $10,047, and $5,190, from General Administrative Expenses were removed for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$9,727
HCL	$14,242
CAF ICC	-
Total	**$23,969**

RECOMMENDATION

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

[12] See 47 CFR § 54.7(a) (2018).

[13] Beneficiary's response to the Summary of Exceptions, received October 25, 2022.

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

BENEFICIARY RESPONSE

A misunderstanding of notice effective date and inadequate procedures for identifying ineligible expenses caused some ineligible expenses to be included in the High Cost filing. Processes & procedures to classify ineligible expenses are now in place.

Finding #4: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets

CONDITION

CLA obtained and examined the Beneficiary's general ledger and Cable and Wire Facilities (CWF) Continuing Property Records (CPR) and judgmentally selected samples to determine whether the Beneficiary reported accurate asset balances. CLA selected a non-statistical, judgmental sample of 46 assets totaling $14,976,265 and determined the Beneficiary did not have adequate documentation to substantiate the value for one asset sample. FCC rules require carriers to retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules for at least ten years.[14] Below is summary of the exception noted:

Table 4-1: Unsupported Sample			
Sample #	**Account**	**Total Value of Sample**	**Unsupported Amount**
37	2423.103	$213,023	$213,023

Table 4-2: Unsupported Account Balances			
Account	**As Reported in Part 64 (A)**	**Unsupported Balance (B)**	**Recalculated Balance (A) – (B)**
Period of January 1, 2018 - December 31, 2018			
Cable and Wire Facilities (Acct 2410)	$20,999,173	($213,023)	$20,786,150
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,440,459	($75,479)	$7,364,980
Buried Cable Expense (Acct 6410)	$217,239	($2,204)	$215,035
Depreciation Expense (Acct 6560_2410)	$853,499	($8,658)	$844,841
Cable and Wire Facilities (DL700)	$20,999,173	($213,023)	$20,786,150
Category 1 Investment for Cable and Wire (DL710)	$20,663,081	($209,621)	$20,453,460
Period of April 01, 2018 - March 31, 2019			
Cable and Wire Facilities (Acct 2410)	$21,001,574	($213,023)	$20,788,551
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,659,475	($77,692)	$7,581,783
Buried Cable Expense (Acct 6410)	$231,690	($2,350)	$229,340

[14] 47 C.F.R. § 54.320(b) (2018).

Table 4-2: Unsupported Account Balances			
Account	**As Reported in Part 64 (A)**	**Unsupported Balance (B)**	**Recalculated Balance (A) – (B)**
Depreciation Expense (Acct 6560_2410)	$854,433	($8,667)	$845,766
Cable and Wire Facilities (DL700)	$21,001,574	($213,023)	$20,788,551
Category 1 Investment for Cable and Wire (DL710)	$20,665,483	($209,614)	$20,455,869
Period of October 1, 2018 - September 30, 2019			
Cable and Wire Facilities (Acct 2410)	$21,043,508	($213,023)	$20,830,485
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$8,097,273	($81,969)	$8,015,304
Buried Cable Expense (Acct 6410)	$267,383	($2,707)	$264,676
Depreciation Expense (Acct 6560_2410)	$856,521	($8,671)	$847,850
Cable and Wire Facilities (DL700)	$21,043,508	($213,023)	$20,830,485
Category 1 Investment for Cable and Wire (DL710)	$20,707,416	($209,621)	$20,497,795

Table 4-3: Impact on Cable and Wire Facilities Categorization[15]			
Category	**Original Part 36 Balance**	**Unsupported Balance**	**Revised Part 36**
Category 1	$20,628,851	($209,721)	$20,419,130
Category 2 – Wideband Trunk	$294,144	($2,990)	$291,154
Category 2 – Wideband Direct	$19,145	($195)	$18,950
Category 3 – Joint Message x/Wideband	$5,722	($58)	$5,664
Category 3 – Private Line and Local x/Wideband	$1,560	($16)	$1,544
Category 3 – Direct Assignment	$4,234	($43)	$4,191
Total	**$20,953,656**	**($213,023)**	**$20,740,633**

<u>CAUSE</u>

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure the retention of records to demonstrate transactions were recorded in the proper amount and to the proper general ledger account. Upon follow-up by CLA to obtain the missing documentation, the Beneficiary stated this is due to a lack of effective retention policy and procedures, a change of outside consulting professionals, and employee turnover.[16]

[15] Reported balances for Cable and Wire Facilities Categorization for 2020 High Cost Program disbursements are only reported as of 12/31/18. Additionally, the balances are reported as an average balance, thus the balances reported for Category 1 for Tables 4-2 and 4-3 are different.

[16] Beneficiary's response to the Summary of Exceptions, received 10/25/22.

EFFECT

CLA calculated the monetary effect of this finding by removing the unsupported balances from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively.[17] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$6,084
HCL	$14,706
CAF ICC	-
Total	**$20,790**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary must develop and implement policies, procedures, and processes that ensure that adequate documentation is maintained for all assets reported for High Cost program purposes.

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

BENEFICIARY RESPONSE

Though the selected sample was not found in the exchange where it was recorded in the CPRs, the asset is in the company's network. Processes and procedures for document retention and recording in proper exchange as well as for future changes in employee and outside consulting professionals are being developed.

Finding #5: 47 C.F.R. § 32.6112 - Improper Distribution of Overhead Expenses

CONDITION

CLA obtained and examined overhead clearing reports to determine whether the Beneficiary distributed overhead expenses using direct labor hours and recorded its overhead expenses to the proper general ledger account for the December 31, 2018, and September 30, 2019, High Cost Program filings. CLA non-statistically selected two months to inspect the distribution of overhead expenses and determined that the secondary distribution for Part 32 account 6112 motor vehicle expense improperly included customer operations expenses, corporate operations expenses, and plant non-specific operations expense accounts. FCC rules delineate specific expenses that are to be included in the account for motor vehicle expense, and also explain that credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts.[18] CLA summarized the exceptions within the table below:

[17] Please see the Unsupported balance column in Table 4-2 above for each account and data periods respective adjustments utilized for recalculation of High Cost Program support.

[18] *See* 47 C.F.R. § 32.6112 (2018).

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance Over/(Under) Reported (A-B)
Period of January 1, 2018 - December 31, 2018			
Cable and Wire Facilities (Acct 2410)	$20,999,173	$21,023,710	($24,537)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,440,459	$7,448,672	($8,213)
General Support (Acct 6120)	$115,269	$120,134	($4,865)
Central Office Switching (Acct 6210)	$69,721	$73,396	($3,675)
Central Office Transmission (Acct 6230)	$482,099	$513,892	($31,793)
Information Origination/Termination (Acct 6310)	($2,056)	$16,089	($18,145)
Cable and Wire Facilities (Acct 6410)	$217,239	$221,715	($4,476)
Other property plant and equipment (Acct 6510)	$2,094	$1,923	$171
Network Operations (Acct 6530)	$735,867	$693,407	$42,460
Depreciation Expense (Acct 6560_2410)	$853,499	$861,712	($8,213)
Marketing (Acct 6610)	$83,151	$77,470	$5,681
Services (Acct 6620)	$414,058	$384,650	$29,408
General and Administrative (Acct 6720)	$827,136	$784,335	$42,801
Cable and Wire Facilities (DL700)	$20,999,173	$21,023,710	($24,537)
Category 1 Investment for Cable and Wire (DL710)	$20,663,081	$20,687,225	($24,144)
Period of April 1, 2018 – March 31, 2019			
Cable and Wire Facilities (Acct 2410)	$21,001,574	$21,027,166	($25,592)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,659,475	$7,668,809	($9,334)
General Support (Acct 6120)	$117,561	$122,049	($4,488)
Central Office Switching (Acct 6210)	$64,277	$68,440	($4,163)
Central Office Transmission (Acct 6230)	$521,071	$552,567	($31,496)
Cable and Wire Facilities (Acct 6410)	$231,690	$235,589	($3,899)
Network Operations (Acct 6530)	$742,669	$699,175	$43,494
Depreciation Expense (Acct 6560_2410)	$854,433	$863,767	($9,334)
General and Administrative (Acct 6720)	$813,540	$768,601	$44,939
Cable and Wire Facilities (DL700)	$21,001,574	$21,027,166	($25,592)
Category 1 Investment for Cable and Wire (DL710)	$20,665,483	$20,690,665	($25,182)
Period of October 31, 2018 – September 30, 2019			
Cable and Wire Facilities (Acct 2410)	$21,043,508	$21,072,730	($29,222)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$8,097,273	$8,108,517	($11,244)
General Support (Acct 6120)	$123,052	$129,529	($6,477)
Central Office Switching (Acct 6210)	$67,303	$71,783	($4,480)

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance Over/(Under) Reported (A-B)
Central Office Transmission (Acct 6230)	$525,035	$564,401	($39,366)
Cable and Wire Facilities (Acct 6410)	$267,383	$274,244	($6,861)
Network Operations (Acct 6530)	$733,830	$686,782	$47,048
Depreciation Expense (Acct 6560_2410)	$856,521	$867,765	($11,244)
General and Administrative (Acct 6720)	$836,753	$787,345	$49,408
Cable and Wire Facilities (DL700)	$21,043,508	$21,072,730	($29,222)
Category 1 Investment for Cable and Wire (DL710)	$20,707,416	$20,736,172	($28,756)

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. The Beneficiary informed CLA that they did not fully understand vehicle allocation rules.[19]

EFFECT

CLA calculated the monetary effect of this finding by removing the overstated account balances and adding the understated account balances from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively.[20] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$3,383
HCL	$15,553
CAF ICC	-
Total	**$18,936**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary develop policies and procedures and implement an adequate system to ensure it properly distributes its motor vehicle expenses only to construction and to the related plant specific operations expense accounts.

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

[19] Beneficiary's response to the Summary of Exceptions, received 10/25/22.

[20] Please see the Variance Over/(Under) Reported column in the above table for each account and data periods respective adjustments utilized for recalculation of High Cost Program support.

BENEFICIARY RESPONSE

We understand that the procedures to spread the motor vehicle expenses were not clear and appropriate. We will develop clear procedures and instructions for properly spreading the motor vehicle expenses to construction and to the related plant specific operations expense accounts.

Finding #6: 47 C.F.R. § 64.901(b) - Improper Inclusion of Non-Regulated Assets

CONDITION

CLA obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) route allocation to determine whether the allocation of the investment was assigned to the proper category and accurately reported for High Cost Program purposes for the periods ending December 31, 2018, and September 30, 2019, respectively. Based on examination of the Beneficiary's CWF route allocation, CLA determined the Beneficiary failed to include non-regulated usage within its allocation of dark fiber. Per FCC Rules, outside plant investment costs shall be based upon the relative regulated and non-regulated usage of the investment.[21] Thus, the dark fibers should have been allocated upon the usage of the investment, rather than only on the regulated usage of the investment. Thus, CLA performed a recalculation of the Beneficiary's spares categorization as it effects the interexchange route categorization submitted for High Cost purposes.

Below, CLA summarizes the variances between the Beneficiary's original submitted amounts for the categorization of interexchange routes and CLA's recalculated categorization with allocation of spares in the same proportion as in use fibers:

Table 6-1: Recalculated Account Balances			
Account	**As reported in Part 64 Cost Study (A)**	**CLA Audited Balance (B)**	**Variance (Over)/Under Reported (B-A)**
Period of January 1, 2018 – December 31, 2018			
Cable and Wire Facilities (Acct 2410)	$20,999,173	$20,850,905	($148,268)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,440,459	$7,387,924	($52,535)
Cable and Wire Facilities (Acct 6410)	$217,239	$215,705	($1,534)
Depreciation Expense (Acct 6560_2410)	$853,499	$847,473	($6,026)
Cable and Wire Facilities (DL700)	$20,999,173	$20,850,905	($148,268)
Category 1 Investment for Cable and Wire (DL710)	$20,663,081	$20,516,895	($146,186)
Period of April 01, 2018 – March 31, 2019			
Cable and Wire Facilities (Acct 2410)	$21,001,574	$20,853,289	($148,285)

[21] See 47 C.F.R. § 64.901(b)(4) (2018).

Table 6-1: Recalculated Account Balances			
Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance (Over)/Under Reported (B-A)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$7,659,475	$7,605,394	($54,081)
Cable and Wire Facilities (Acct 6410)	$231,690	$230,054	($1,636)
Depreciation Expense (Acct 6560_2410)	$854,433	$848,400	($6,033)
Cable and Wire Facilities (DL700)	$21,001,574	$20,850,889	($148,285)
Category 1 Investment for Cable and Wire (DL710)	$20,665,483	$20,516,902	($148,581)
Period of October 1, 2018 – September 30, 2019			
Cable and Wire Facilities (Acct 2410)	$21,043,508	$20,893,939	($149,569)
Accumulated Depreciation of Cable and Wire Facilities (Acct 3100_2410)	$8,097,273	$8,039,721	($57,552)
Cable and Wire Facilities (Acct 6410)	$267,383	$265,483	($1,900)
Depreciation Expense (Acct 6560_2410)	$856,521	$850,433	($6,088)
Cable and Wire Facilities (DL700)	$21,043,508	$20,893,939	($149,569)
Category 1 Investment for Cable and Wire (DL710)	$20,707,416	$20,559,239	($148,177)

Table 6-2: Impact on Cable and Wire Facilities Categorization[22]			
Category	Original Part 36 Balance (A)	Revised Part 36 (B)	Over/(Under) Reported (C=A-B)
Category 1	$20,628,851	$20,478,670	$150,181
Category 2 – Wideband Trunk	$294,144	$283,547	$10,597
Category 2 – Wideband Direct	$19,145	$18,455	$690
Category 3 – Joint Message x/Wideband	$5,722	$12,280	($6,558)

[22] Reported balances for Cable and Wire Facilities Categorization for 2020 High Cost Program disbursements are only reported as of December 31, 2018. Additionally the balances are reported as an average balance, thus the balances reported for Category 1 for Tables 6-1 and 6-2 are different.

Table 6-2: Impact on Cable and Wire Facilities Categorization[22]			
Category	**Original Part 36 Balance (A)**	**Revised Part 36 (B)**	**Over/(Under) Reported (C=A-B)**
Category 3 – Private Line and Local x/Wideband	$1,560	$3,348	($1,788)
Category 3 – Direct Assignment	$4,234	$9,087	($4,853)
Total	**$20,953,656**	**$20,805,387**	**$148,269**

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly allocate spares in proportion to fiber in use for High Cost Program purposes. The Beneficiary informed CLA that this is due to the procedure on sequence of events: removal of lease before categorizing spares.[23] To clarify, the Beneficiary first removed costs related to non-regulated leased assets before allocating costs of spares to the leased assets, instead of first allocating spares costs so that it was properly included in the portion of costs removed as non-regulated leased assets.

EFFECT

CLA calculated the monetary effect of this finding by removing the unsupported account balances from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively.[24] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$4,454
HCL	$10,479
CAF ICC	-
Total	**$14,933**

RECOMMENDATION

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, procedures, and processes to ensure allocation of dark fiber is based on the in-use portion of the same section of cable costs submitted for High Cost program purposes.

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

[23] Beneficiary's response to the Summary of Exceptions, received October 25, 2022.

[24] Please see the Unsupported balance column in Table 6-1 above for each account and data periods respective adjustments utilized for recalculation of High Cost Program support.

BENEFICIARY RESPONSE

Companies that lease fiber from our company do not want to pay for a leased dark fiber or spare. Based on fiber usage, we removed the lease fibers from our network and allocated the spares on the fibers left in the network. We were unaware of any rules on sequential order for the removal of leased fibers. We will update our procedures for the removal of leased fibers.

Finding #7: 47 C.F.R. § 51.917(d) **-** Inaccurate True-Up Adjustment: Exogenous Cost

CONDITION

CLA obtained and examined the Beneficiary's CAF ICC True-up documentation for both program years 2017 and 2018 to determine whether the Beneficiary reported accurate exogenous cost amounts for High Cost program purposes. Exogenous costs reported for CAF ICC purposes include Telecommunication Relay Service (TRS), FCC Regulatory, and North American Number Plan Association (NANPA) fees. For beneficiaries whose subscriber line charge rates were at the maximum levels permitted by FCC Rules, the 2012 Annual Access Tariff Filings Order, DA 12-575, allowed beneficiaries to include that portion of increases in mandatory TRS, FCC Regulatory, and NANPA fees associated with a rate that is capped in their Eligible Recovery for the 2012 annual access charge tariff filing.[25]

Upon examination of the supporting documentation for the reported exogenous costs, CLA identified inconsistencies with the Beneficiary process to calculate such costs. The first inconsistency was determined to be from the Beneficiary not utilizing the same switched factor from its Part 69 for its calculation in 2017 as it did in 2018. Secondly, the data inputs utilized for base year 2011 necessary for the calculation varied between both periods under review. The difference in program year 2017 noted in our review is summarized below:

Revenue	**Program Year July 2017 – June 2018 (A)**
Exogenous Cost Reported	$3,672
Audited Exogenous Cost	$2,392
Exogenous Cost Difference	**$1,280**

Because the Beneficiary did not accurately calculate its exogenous cost, CLA concludes that the Beneficiary did not report an accurate exogenous cost amount. The Beneficiary must report accurate exogenous costs for High Cost program purposes.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the calculation of exogenous cost submitted for High Cost program purposes. The Beneficiary informed CLA that incomplete procedures for NECA guidelines changed between years on how it was to be reported.[26]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $1,280 from the exogenous cost reported in the Beneficiary's High Cost program filings. CLA summarized the impact of this finding

25 Material to be Filed in Support of 2012 Annual Access Tariff Filings, 27 FCC Rcd at 3960 (5), para. 7.

26 Beneficiary's response to the Summary of Exceptions, received October 25, 2022.

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

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	-
HCL	-
CAF ICC	$640[27]
Total	**$640**

RECOMMENDATION
We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. To ensure accurate reporting, we recommend that the Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary calculates its Exogenous Costs, utilizing appropriate factors, which are submitted in its CAF ICC filing for High Cost program purposes.

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

BENEFICIARY RESPONSE

Based on changes to the reporting requirements from NECA that are out of our control, we reported the exogenous costs as we were aware at the time. We will develop processes to review and use appropriate factors.

Finding #8: 47 C.F.R. § 64.901 - Improper Inclusion of Non-Regulated Amounts

CONDITION
CLA obtained and reviewed the Beneficiary's narrative of the methodology used to assign costs to nonregulated activities, the general ledger detail, a specific floor space identification analysis, the cost study adjustments, and related supporting schedules for their December 31, 2018, and September 30, 2019, High Cost Program filings, to determine whether the Beneficiary reported amounts accurately for High Cost Program purposes. Per FCC Rules, carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.[28]

CLA noted the following exceptions with regards to the Beneficiary's land and building allocation factors developed to remove non-regulated proportions:

1. The Beneficiary used a specific floor space identification analysis that incorporates the various buildings in consideration such as their general office building and central office building etc., to establish a basis for cost causative allocations of certain land and building

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[27] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes at least $640 in improper disbursements were made during prior and subsequent periods. Additional amounts may have been overstated in prior periods due to the same or similar errors.

[28] *See* 47 C.F.R. § 64.901 (2018).

expenses. The Beneficiary performs this assessment annually. Within the detailed analysis, any areas that can be specifically identified between regulated and non-regulated are allocated accordingly based on the square feet of the buildings and for any areas that cannot be specifically identified are allocated based on the same percent as the directly identifiable areas. As part of the allocation support, the Beneficiary developed three non-regulated percent factors for land and buildings such as (i) a percent factor representing the non-regulated portion of land, (ii) a percent factor representing the non-regulated portion of building and (iii) a blended percent factor representing the non-regulated portion of both land and building. Per the Beneficiary, the blended percentage developed for land and building related expenses was to be applied for furniture, office equipment and general-purpose computer related accounts.

The Beneficiary used the (ii) percent factor representing the non-regulated portion of building for their furniture, office equipment and general-purpose computer related accounts instead of the (iii) blended percent factor representing the non-regulated portion of both land and building, as outlined in their cost allocation policy detailed above.

2. The Beneficiary failed to remove the nonregulated portion for account 2114 in both High Cost filing adjustments as of December 31, 2018, and as of September 30, 2019.

CLA summarized the exceptions within the table below:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance (Over)/Under Reported (B-A)
Period of January 1, 2018 - December 31, 2018			
Land and Support Assets (2110)	$2,365,045	$2,237,561	($127,484)
Land and Support Accumulated Depreciation (3100 - 2110)	$1,725,513	$1,624,233	($101,280)
Network Support Expense (Acct 6110)	$8,257	$8,088	($169)
General Support Expenses (Acct 6120)	$115,269	$114,995	($274)
Period of April 1, 2018 - March 31, 2019			
Land and Support Assets (2110)	$2,150,558	$2,014,760	($135,798)
Land and Support Accumulated Depreciation (3100 - 2110)	$1,616,600	$1,509,019	($107,581)
Network Support Expense (Acct 6110)	$13,960	$13,461	($499)
General Support Expenses (Acct 6120)	$117,561	$149,354	$31,793
Period of October 1, 2018 - September 30, 2019			

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance (Over)/Under Reported (B-A)
Land and Support Assets (2110)	$2,273,359	$2,185,497	($87,862)
Land and Support Accumulated Depreciation (3100 - 2110)	$1,624,826	$1,557,663	($67,163)
Network Support Expense (Acct 6110)	$19,340	$19,012	($328)
General Support Expenses (Acct 6120)	$123,052	$129,672	$6,620

CAUSE

The process to prepare, review, and approve the 2018 cost study did not identify and adjust for the allocation of expenses related to common areas consistently with offices and workspaces. The Beneficiary informed CLA that a reason for this finding is due to ineffective procedures and processes.[29]

EFFECT

CLA calculated the monetary effect of this finding by removing the overstated account balances and adding the understated account balances from the Beneficiary's High Cost program filings for the periods ending December 31, 2018, March 31, 2019, and September 30, 2019, respectively.[30] CLA summarized the impact of this finding relative to disbursements made from the High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$3,406
HCL	$(13,153)
CAF ICC	-
Total	**$(9,747)**[31]

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. We recommend that the Beneficiary perform a quality assurance review of inputs to ensure accuracy of the allocation factors and perform a quality assurance review of the data submission to ensure all applicable Part 32 accounts are submitted for High Cost program purposes.

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

29 Beneficiary's response to the Summary of Exceptions, received October 25, 2022.
30 Please see the Variance Over/(Under) Reported column in the above table for each account and data periods respective adjustments utilized for recalculation of High Cost Program support.
31 The High Cost program does not pay additional support in the event of a finding resulting in an underpayment.

BENEFICIARY RESPONSE

We have reviewed the procedures for the removal of non-regulated allocations with our consultant. We will update the procedures and processes to properly remove non-regulated costs with an allocation factor appropriate for such costs.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.27(b) (2018)	Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost. (1) Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (2) Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed

		$500,000, the asset(s) shall be recorded at net book cost.
#2	47 C.F.R. § 32.2000 (e),(f)(1)-(2) (2018)	**Standard practices for establishing and maintaining continuing property records** - (1) Accounting area. (i) The continuing property record, as related to each primary plant account, shall be established and maintained by subaccounts for each accounting area. An accounting area is the smallest territory of the company for which accounting records of investment are maintained for all plant accounts within the area. Areas already established for administrative, accounting, valuation, or other purposes may be adopted for this purpose when appropriate. In no case shall the boundaries of accounting areas cross either State lines or boundaries prescribed by the Commission. (ii) In determining the limit of each area, consideration shall be given to the quantities of property, construction conditions, operating districts, county and township lines, taxing district boundaries, city limits, and other political or geographical limits, in order that the area adopted may have maximum adaptability, within the confines of practicability, for both the company's purpose and those of Federal, State, and municipal authorities. (2) Property record units. (i) In each of the established accounting areas, the "property record units" which are to be maintained in the continuing property record shall be set forth separately, classified by size and type with the amount of original cost (or other appropriate book cost) associated with such units. When a list of property record units has been accepted by the Commission, they shall become the units referred to in this statement of standard practices. Such units shall apply to only the regulated portion of this system of accounts. (ii) When it is found necessary to revise this list because of the addition of units used in providing new types of service, or new units resulting from improvements in technology, or because of the grouping or elimination of units which no longer merit separate recognition as property record units, one copy of such changes shall be submitted to the

		Commission. Upon appropriate showing by the company, the Commission may specifically exempt the company from these filing requirements. (iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also paragraph (f)(3) of this section) of the property record units. The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts) and maintained in such manner as will provide for the verification of property record units by physical examination. The continuing property record and other underlying records of construction costs shall be so maintained that, upon retirement of one or more retirement units or of minor items without replacement when not included in the costs of retirement units, the actual cost or a reasonably accurate estimate of the cost of the plant retired can be determined.
#3	47 C.F.R. § 54.7(a) (2018-2019).	A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#3	FCC 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.
#3	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 Rcd 2990, 2994, paras. 17-41 (2018).	In this Report and Order, we adopt reforms to ensure that high-cost universal service support provided to eligible telecommunications carriers (ETCs) is used only for the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended pursuant to section 254(e) of the Act. We also adopt reforms to ensure that the investments and expenses that rate-of-return carriers recover through interstate rates are reasonable pursuant to section 201(b) of the Act. Our findings here do not prevent rate-of return carriers from incurring any particular investment or expense, but simply clarify the extent to which investments and expenses may be recovered through federal high-cost support and interstate rates. The rules we adopt are prospective, but the underlying obligations are preexisting and many of the rules we adopt today codify existing precedent. Our rules and the used and useful standard have long governed ETCs and rate-of-return carriers' behavior. Nothing we do in this Report and Order is intended to undermine our precedent.
#4	47 C.F.R § 54.320(b) (2018-2019)	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.
#5	47 C.F.R § 32.6112 (2018-2019)	(a) This account shall include costs of fuel, lubrications, license, and inspection fees, washing, repainting, and minor accessories. Also included are the costs of personnel whose principal job is operating motor vehicles, such as chauffeurs and shuttle bus drivers. The costs of users of motor vehicles whose principal job is not the operation of motor vehicles shall be charged to accounts appropriate for the activities performed. (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.
#6, #8	47 C.F.R. § 64.901(a), (b) (2018-2019)	(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 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.
#7	47 C.F.R. § 51.917(d) (2018-2019)	***Eligible Recovery for Rate-of-Return Carriers.*** (1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section. (i) Beginning July 1, 2012, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012, using the target methodology required by § 51.705. (ii) Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:

		(A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013, using the target methodology required by § 51.705. (iii) Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014, using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012.

		(D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012, multiplied by negative one. (iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year. (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year. (vi) If a Rate-of-Return Carrier receives or makes reciprocal compensation payments after the period used to measure the adjustments to reflect the differences between estimated and actual net reciprocal compensation revenues, it shall treat such amounts as actual revenues or payments in the year the payment is received or made and shall reflect this as an additional adjustment for that year. (vii) If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to § 51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism. (viii)

		(A) If a Rate-of-Return Carrier in any tariff period underestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), and thus has too much Eligible Recovery in that tariff period, it shall refund the amount of any such True-up Revenues or True-up Revenues for Access Recovery Charge that are not offset by the Rate-of-Return Carrier's Eligible Recovery (calculated before including the true-up amounts in the Eligible Recovery calculation) in the true-up tariff period to the Administrator by August 1 following the date of the Rate-of-Return Carrier's annual access tariff filing. (B) If a Rate-of-Return Carrier in any tariff period receives too little Eligible Recovery because it overestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), which True-up Revenues and True-up Revenues for Access Recovery Charge it cannot recover in the true-up tariff period because the Rate-of-Return Carrier has a negative Eligible Recovery in the true-up tariff period (before calculating the true-up amount in the Eligible Recovery calculation), the Rate-of-Return Carrier shall treat the unrecoverable true-up amount as its Eligible Recovery for the true-up tariff period.

Attachment S

HC2023LR005

Beehive Telephone Company

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

USAC Audit No. HC2023LR005

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EXECUTIVE SUMMARY

September 28, 2023

Larry Mason
Senior Vice President of Regulatory Affairs
Beehive Telephone Company
2000 East Sunset Road
Lake Point, UT 84074

Dear Larry Mason:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Beehive Telephone Company (Beneficiary), study area code 502284 disbursements for the year ended December 31, 2021, 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, Federal Communication Commission (FCC) Rules). Compliance with 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 did not disclose any areas of non-compliance with FCC Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

PURPOSE, SCOPE, BACKGROUND 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)	2018-2021	2021	$1,890,720
		Total	**$1,890,720**

BACKGROUND

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

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 filing consistent with the dates established by FCC Rules.

C. Revenues

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

This concludes the report.

Attachment T

HC2023LR021

Available For Public Use

Citizens Telephone Corporation

Limited Review Performance Audit on

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

USAC Audit No. HC2023LR021

Prepared For:

Universal Service Administrative Company

October 5, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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EXECUTIVE SUMMARY

October 5, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a performance audit on the compliance of Citizens Telephone Corporation (Beneficiary), study area code **320751** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2021. CLA conducted the audit field work from January 26, 2023, to October 5, 2023.

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

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

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

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

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP
Greenbelt, MD
October 5, 2023

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is an average-schedule eligible telecommunications carrier (ETC) that provides telecommunication services in Warren and Liberty Center of Indiana. The Beneficiary has a wholly owned subsidiary named Warren Cable, which the Beneficiary provides customer service, accounting, management, and maintenance services to Warren Cable.

PROGRAM OVERVIEW

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

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

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

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

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

OBJECTIVES, SCOPE, AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2019	2021	$909,450
High Cost Loop (HCL)	2019-2020	2021	$67,170
CAF Intercarrier Compensation (ICC)	2018-2020	2021	$141,990
		Total	**$1,118,610**

PROCEDURES
We performed the following procedures:

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

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

C. 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.

D. Cost Allocation
We obtained the carrier's loop and/or access line count report(s), and the National Exchange Carrier Association (NECA) Loop Count Guide. For HCL, we agreed the number of loops per the loop report to the number of loops reported in the High Cost data according to the Part 36 data reported. For CAF BLS, we agreed the number of access lines per the access line report to the number of access lines reported in the High Cost data according to the Form 507. We agreed the number of consumer broadband-only lines to the number of consumer broadband-only loop in service reported in the High Cost. We also, obtained the monthly line count billing reports and reconcile to the monthly lines counts reported in the 24-month view.

Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: October 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Head Start Telecom, Inc. **Attachment A**	0	• Not applicable.	$267,300	$0	$0	N/A
Total	**0**		**$267,300**	**$0**	**$0**	

Attachment A

LI2022LR004

Head Start Telecom, Inc.

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

USAC Audit No. LI2022LR004

CONTENTS

EXECUTIVE SUMMARY

August 4, 2023

Mr. Scott Cathey
President
Head Start Telecom, Inc.
P.O. Box 4120
Edmond, OK 73083

Dear Mr. Cathey:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Head Start Telecom, Inc. (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers during the 18 month period from January 1, 2020 through June 30, 2021, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the 18-month period from January 1, 2020 through June 30, 2021 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
439028	Oklahoma	Tribal/Non-Tribal Lifeline	4,572	$147,322
439044	Oklahoma	Tribal/Non-Tribal Lifeline	3,875	$119,978
		Total	**8,447**	**$267,300**

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 93 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Support Pass-Through

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

D. Form 555

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

E. Non-Usage Process

AAD obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation for 56 subscribers to determine whether the Beneficiary properly validated its low-income subscribers' 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.

F. Minimum Service Standard

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

G. Reseller-based Telecommunication Providers

AAD obtained an understanding of the Beneficiary's leased phone lines relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation to determine whether the Beneficiary properly claimed low-income subscribers that used the leased phone lines.

H. Enrollment Representative Accountability

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

This concludes the report.

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

Entity Name	**Number of Findings**	**Significant Findings**	**Amount of Support**	**Monetary Effect**	**USAC Management Recovery Action**	**Entity Disagreement**
Xchange Telecom Corp. **Attachment B**	1	• No significant findings.	$787,460	$2,322	$2,322	N
Cable One, Inc. **Attachment C**	1	• No significant findings.	$326,488	$2,118	$2,118	Partial
IT&E Pacifica, Inc. **Attachment D**	2	• No significant findings.	$302,556	$3,435	$3,435	N
Palmetto Rural Telephone Cooperative, Inc. **Attachment E**	2	• No significant findings.	$89,292	$6,165	$6,165	Y
Fort Mojave Telecommunications, Inc. **Attachment F**	2	• No significant findings.	$46,221	$2,269	$2,269	N
Total	**8**		**$1,552,017**	**$16,309**	**$16,309**	

Attachment B

LI2021LR002

Available For Public Use

Xchange Telecom Corp.

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

USAC Audit No. LI2021LR002

CONTENTS

EXECUTIVE SUMMARY

November 15, 2023

David Beck
Controller
Xchange Telecom, Corp.
3611 14th Avenue Ste. 215
Brooklyn, NY 11218

Dear Mr. Beck:

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

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

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

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery
Finding: 47 C.F.R. § 54.417(a) - Lack of and Inadequate Documentation: Eligibility/Identity Documents and Certification/Recertification Forms. The Beneficiary failed to provide supporting documentation or adequate supporting documentation to substantiate certification or recertification for certain subscribers, and thus, was not eligible to receive Lifeline Program support claimed.	$2,322
Total Net Monetary Effect	**$2,322**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
159017	New York	Lifeline (Non-Tribal)	86,694	$787,460

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 69 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

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

D. Form 555

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

E. Minimum Service Standard

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

F. Reseller-based Telecommunication Providers

AAD obtained an understanding of the Beneficiary's leased phone lines relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation to determine whether the Beneficiary properly claimed low-income subscribers' that used the leased phonelines.

G. Enrollment Representative Accountability

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

DETAILED AUDIT FINDING

Finding: 47 C.F.R. § 54.417(a) – Lack of and Inadequate Documentation: Eligibility/Identity Documents and Certification/Recertification Forms

CONDITION

AAD obtained and examined certification and recertification forms and proof of eligibility and identity documentation for a non-statistical sample of 69 subscribers to determine whether the subscribers were eligible to receive the Lifeline program support claimed by the Beneficiary. Of the 69 sampled subscribers, the Beneficiary was responsible for the eligibility and recertification processes for 56 subscribers, and USAC was responsible for 13.

For the 56 samples, 29 subscribers in total either lacked documentation or the documentation provided was not adequate to satisfy the requirements as detailed below:

Lack of Documentation	No. of Affected Forms
Certification Form for a re-enrolled subscriber not provided.[1]	1
Eligibility documents for re-enrolled subscribers not provided for the period under audit.[2]	4
Eligibility document to prove eligibility for Medicaid/Supplemental Nutrition Assistance Program (SNAP), the programs of eligibility per the subscriber form, not provided.	1
Identity documentation retained did not include all current PII information.[3]	3
Inadequate Documentation[4]	
Eligibility documentation did not correspond with the qualifying government program on the certification form.[5]	1
An enrollment form did not include the subscriber's eligibility program.	1
The date on an enrollment form was after the service initiation date.	1
The date of birth (DOB) and the last four digits of the social security number on an enrollment form did not match National Lifeline Accountability Database(NLAD) or the documents maintained.[6]	1

[1] *See* 47 C.F.R. § 54.410(d).
[2] *See* 47 C.F.R. § 54.404(b)(11).
[3] *See* 47 C.F.R. §§ 54.417.a, 54.404.b(11), 54.410.d(2).
[4] *See* C.F.R. 47 § 54.410(d).
[5] 47 C.F.R. § 54.410(c)(1).
[6] *See* 47 C.F.R. § 54.404(b)(6).

IVR script did not require subscribers to state the specific program of eligibility.[7]	4
A Form 5630, which is generated after the completion of an Interactive Voice Response (IVR) record, had a different completion date than indicated on the IVR Report.	1
The DOB on a state database search did not match NLAD. The Beneficiary was provided the correct DOB on a 2015 recertification but failed to update it in NLAD.[8]	1
New York State ID card for SNAP/Medicaid eligibility either did not have a date printed or the date could not confirm current eligibility for enrollments.	11
Eligibility Documentation provided did not prove program eligibility for initial enrollments.	4
Eligibility Documentation did not cover all or part of the enrollment period.	2
Total No. of Affected Subscribers[9]	**29**

Because the Beneficiary failed to provide supporting documentation or adequate supporting documentation to substantiate certification or recertification, AAD concludes that 29 subscribers were not eligible to receive Lifeline Program support claimed by the Beneficiary.

CAUSE

The Beneficiary's representatives did not demonstrate sufficient knowledge or training on the FCC Rules requiring compliance with document retention. The Beneficiary stated that the errors were caused by human error and that the responsibility has shifted to USAC since the launch of the National Verifier.[10]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 29 subscribers subsequent to the subscriber's Lifeline start date, as noted in the NLAD, until December 31, 2019. AAD identified a total of 251 instances for subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25). AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
Non-Tribal Lifeline	$2,322

[7] *See* 47 C.F.R. § 54.410(f)(2)(iii).
[8] *See* 47 C.F.R. § 54.404(b)(8).
[9] Documentation for each subscriber certification may omit multiple required fields. Therefore, one certification may be included in multiple rows in the table above.
[10] Beneficiary response to Exceptions Summary on April 5, 2023.

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure it obtains and retains appropriate documentation to comply with Lifeline program rules. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

The documentation and forms were either incorrectly accepted or not properly saved due to human and system error. The representatives failed to follow documented processes and a group of documents were lost due to system issues. We have since updated our personnel training and updated our system security. We no longer handle eligibility determination or recertification. We de-enoll subscribers from our internal system for failure to recertify within 5 days of notification.

CRITERIA

Criteria	Description
47 C.F.R. § 54.417(a) (2018)	Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years.
47 C.F.R. § 54.410(d) (2018)	Eligibility certification form. Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that provide the information in paragraphs (d)(1) through (3) of this section in clear, easily understood language. If a Federal eligibility certification form is available, entities enrolling subscribers must use such form to enroll a qualifying low-income consumer into the Lifeline program. (1) The form provided by the entity enrolling subscribers must provide the information in paragraphs (d)(1)(i) through (vi) of this section: (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program; (ii) Only one Lifeline service is available per household; (iii) A household is defined, for purposes of the Lifeline program, as any individual or

Criteria	Description
	group of individuals who live together at the same address and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscriber's de-enrollment from the program; and (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. (2) The form provided by the entity enrolling subscribers must require each prospective subscriber to provide the information in paragraphs (d)(2)(i) through (viii) of this section: (i) The subscriber's full name; (ii) The subscriber's full residential address; (iii) Whether the subscriber's residential address is permanent or temporary; (iv) The subscriber's billing address, if different from the subscriber's residential address; (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; and (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household. (3) The form provided by the entity enrolling subscribers shall require each prospective subscriber to initial his or her acknowledgement of each of the certifications in paragraphs (d)(3)(i) through (viii) of this section individually and under penalty of perjury:(i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline, provided in § 54.409;(ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit.(iii) If the subscriber is seeking to qualify for Lifeline as an eligible resident of Tribal lands, he or she lives on Tribal lands, as defined in 54.400(e);(iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days;(v) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service;(vi) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge,(vii) The subscriber acknowledges that providing false or fraudulent information to receive Lifeline benefits is punishable by law; and(viii) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to § 54.405(e)(4).
47 C.F.R. § 54.404(b)(11) (2018)	***The National Lifeline Accountability Database.***

Criteria	Description
	In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (11) All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, inter alia, verification of eligibility, identity, address, and age.
47 C.F.R. § 54.410(c) (2018)	***Initial program-based eligibility determination***. (1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b), an eligible telecommunications carrier: **(i)** Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures: **(A)** If the eligible telecommunications carrier can determine a prospective subscriber's program-based eligibility for Lifeline by accessing one or more databases containing information regarding enrollment in qualifying assistance programs ("eligibility databases"), the eligible telecommunications carrier must access such eligibility databases to determine whether the prospective subscriber qualifies for Lifeline based on participation in a qualifying assistance program; or **(B)** If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program. **(ii)** Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline, consistent with § 54.417, except to the extent such documentation is retained by the National Verifier.

Criteria	Description
	(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria provided in § 54.409(a)(2) or (b), an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received from the National Verifier, state Lifeline administrator or other state agency: **(i)** Notice that the subscriber meets the program-based eligibility criteria set forth in § 54.409(a)(2) or (b); and **(ii)** If a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility, a copy of the subscriber's certification that complies with the requirements set forth in paragraph (d) of this section. **(iii)** An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.
47 C.F.R. § 54.404(b)(6) (2018)	**The National Lifeline Accountability Database.** In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline.
47 C.F.R. § 54.410(f)(2)(iii) (2018)	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.
47 C.F.R. § 54.404(b)(8) (2018)	**The National Lifeline Accountability Database.** In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days

Criteria	Description
	of receiving any change to that information, except as described in paragraph (b)(10) of this section.

This concludes the report.

Attachment C

LI2022LR003

Available For Public Use

Cable One, Inc.

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

USAC Audit No. LI2022LR003

CONTENTS

EXECUTIVE SUMMARY

November 15, 2023

Melinda Lahmann
Regulatory Analyst
Cable One, Inc.
64 North Clark Street
Sullivan, MO 63080

Dear Ms. Lahmann:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Cable One, Inc. (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers for the 18-month period from January 1, 2020 through June 30, 2021, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communication Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited review performance audit.

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

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

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

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

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery
Finding: 47 C.F.R. § 54.410(c)(2)(i) Improper Claims for Subscribers Not Approved by National Verifier (NV). The Beneficiary claimed subscribers that did not have approved applications approved by NV	$2,118

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the 18-month period from January 1, 2020 through June 30, 2021 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
421882	Missouri	Non-Tribal Lifeline	3,084	$21,272
429002	Missouri	Non-Tribal Lifeline	2,954	$21,595
439048	Oklahoma	Tribal/Non-Tribal Lifeline	8,899	$283,621
		Total	**14,937**	**$326,488**

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

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

C. Lifeline Subscriber Discounts

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

D. Form 555

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

E. Minimum Service Standard

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

F. Enrollment Representative Accountability

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

DETAILED AUDIT FINDING

FINDING: 47 C.F.R. § 54.410(c)(2)(i) – Improper Claims for Subscribers Not Approved by National Verifier

CONDITION

AAD obtained and examined NLAD transaction records for all 25 subscribers that were enrolled or transferred-in prior to the Beneficiary's National Verifier (NV) hard launch of January 22, 2020,[1] and requested certification forms and supporting eligibility documentation from the Beneficiary. The Beneficiary stated that it did not retain paper forms or supporting documentation because it began using NV after the soft launch date of October 19, 2019, and the required forms or documentation were retained in the NV.[2] AAD then obtained and examined NV electronic application records and noted that of the 25 subscribers, 21 were enrolled in NLAD one to 58 days prior to receiving an approved application in NV, and four were enrolled or transferred in, but an application was never completed.[3] Because the Beneficiary did not ensure the subscribers had approved application forms, AAD concludes that the four subscribers were not eligible to receive Lifeline Program support and the 21 subscribers were not eligible until the point that their application was completed.

CAUSE

The Beneficiary did not have adequate knowledge of NLAD enrollment procedures using NV electronic applications. The Beneficiary is unsure why these subscribers were listed as eligible by NV, then entered into NLAD, and subsequently determined to be ineligible by NV.[4]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 25 subscribers where an application was not completed (71 instances).[5] AAD multiplied 53 instances by the Lifeline support amount reimbursed to the Beneficiary at $34.25 and 18 instances by the Lifeline support amount reimbursed to the Beneficiary at $16.83, and then rounded the combined total of both calculations to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
439048	Tribal Lifeline	$2,118

RECOMMENDATION

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

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[1] Subscribers with enrollment dates that ranged from December 2019 to January 2020.

[2] Response from Beneficiary to AIR# 11 received May 10, 2023.

[3] 47 C.F.R. § 54.417(a).

[4] Response from Beneficiary to AIR# 12 received May 30, 2023.

[5] AAD calculated the instances of these subscribers claimed where an application was not completed until March 17, 2020 (when COVID waiver initiated)).

Since the Beneficiary no longer has access to the legacy version of NLAD, there are no controls necessary for the Beneficiary to implement. After the hard launch of the National Verifier, USAC became responsible for documentation review and retention.

BENEFICIARY RESPONSE

The Beneficiary disputes the statement that it "did not have adequate knowledge of NLAD enrollment procedures using NV electronic applications" as stated under the "CAUSE" section above. As a routine practice, the Beneficiary started using NV to verify the eligibility of customers in October 2019 during the soft launch period. At that time, the Company no longer collected eligibility documentation from potential customers because the Company's customer service representatives checked NV to confirm eligibility prior to enrollment of the customer in NLAD. It is possible there was an error in NV for the identified customers or an inadvertent error was made by a customer service representative for the identified customers. The Beneficiary accepts AAD's findings, but states the Beneficiary maintains records to document compliance with Lifeline requirements and has implemented policies, procedures, and controls to ensure it is only claiming subscribers that meet the program eligibility criteria as notified by NV. The Beneficiary also maintains it has implemented adequate training for customer service representatives and those personnel enrolling subscribers in NLAD. Further, this issue will not occur in the future because NLAD now requires a NV application code prior to enrolling a customer in NLAD, and it is the Beneficiary's understanding that NV will not issue an application code until NV has verified the customer's eligibility.

AAD RESPONSE

The Beneficiary is not disputing the finding and only contesting AAD's wording related to the cause statement "the carrier did not have adequate knowledge of NLAD enrollment procedures using NV electronic applications." The Beneficiary did respond that there could have been an "inadvertent error made by a customer service representative." AAD agrees that this error will not occur in the future, considering the ability has been removed upon hard launch of the National Verifier. AAD's overall comments and issues are specifically addressing the knowledge during the three-month period between the soft and hard launch of the National Verifier, a one-time occurrence, and is not stating a lack of knowledge for any other time period. Therefore, AAD finds no other adjustments necessary for the issue cited.

CRITERIA

47 C.F.R. § 54.410(c)(2)(i) (2019):

Subscriber eligibility determination and certification.

(c)Initial program-based eligibility determination

(2) Where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based eligibility criteria provided in § 54.409(a)(2) or (b), an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received from the National Verifier, state Lifeline administrator or other state agency:

(i) Notice that the subscriber meets the program-based eligibility criteria set forth in § 54.409(a)(2) or (b)…

47 C.F.R. § 54.417(a) (2019):

Recordkeeping Requirements. Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years.

This concludes the report.

Attachment D

LI2022LR006

IT&E Pacifica, Inc.

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

USAC Audit No. LI2022LR006

CONTENTS

EXECUTIVE SUMMARY

November 15, 2023

Ms. Leriza Debrum
Regulatory Officer
IT&E Pacifica, Inc.
5P55+85G Tekken Street
Susupe, Saipan 96950, Northern Mariana Islands

Dear Ms. Debrum:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of IT&E Pacifica, Inc. (Beneficiary), for study area codes (SACs) where the Beneficiary claimed subscribers during the 18 month period from January 1, 2020 through June 30, 2021, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communication Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited 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) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions[1] (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.407(b) (2019) - Failure to Pass Through Full Lifeline Support The Beneficiary failed to pass through the full Lifeline amount claimed to certain subscribers.	$3,139	$0	$3,139
Finding #2: 47 C.F.R. § 54.405(e)(1)(2019) – Failure to De-enroll Subscribers Timely The Beneficiary failed to de-enroll deceased subscribers.	$296	$0	$296
Total Net Monetary Effect	**$3,435**	**$0**	**$3,435**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the 18-month period from January 1, 2020 through June 30, 2021 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
653700	North Mariana Islands	Non-Tribal Lifeline	33,134	$298,770
659002	North Mariana Islands	Non-Tribal Lifeline	345	$2,970
669004	North Mariana Islands	Non-Tribal Lifeline	100	$816
		Total	**33,579**	**$302,556**

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

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 137 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

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

D. Form 555

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

E. Minimum Service Standard

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

F. Enrollment Representative Accountability

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.407(b) (2019) – Failure to Pass Through Lifeline Support

CONDITION

AAD obtained and examined Beneficiary's bills for a sample of 58 subscribers, and the Beneficiary's billing registers for all 2,868 Lifeline subscribers for the audit period to determine if the Lifeline Program support reimbursed to the Beneficiary per the LCS was passed onto subscribers in full. AAD determined that for 338 of the 2,868 Lifeline subscribers, the amount disbursed to the Beneficiary exceeded the amount passed through to the subscribers,[2] as detailed below:

Support per LCS (A)	Support per Billing Registers (B)	Difference (A-B)
$38,192	$35,053	$3,139

The FCC Rules require that the Beneficiary reimburse the subscribers for an amount equal to the amount of Lifeline Program support disbursed to the Beneficiary.[3] AAD concludes that the Beneficiary did not pass through the full benefit claimed per the LCS.

CAUSE

The Beneficiary did not have adequate controls and procedures to ensure the full benefit was passed through to claimed subscribers. To pass through the Lifeline Program support, the Beneficiary adds a code to the subscriber record which would apply the applicable discount on the bill. However, the Beneficiary explained that the codes were set to expire after 12 months, which led to subscribers to not receive the monthly discount. Additionally, the Beneficiary stated that the reconciliation of the billing register and the NLAD snapshot claim was neglected during the COVID-19 pandemic. The Beneficiary acknowledged that some of the subscribers continued to receive support when they were no longer eligible.[4]

EFFECT

AAD calculated the monetary effect for this finding by determining the difference for the audit period between the total Lifeline support claimed for the 338 subscribers per the LCS and the Lifeline support passed-through to the subscribers per the billing registers, rounded to the nearest dollar. The individual differences per subscriber ranged from $28 to $2 for the audit period. AAD summarized the results below:

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[2] 47 C.F.R. § 54.403(a)(1) (2019).
[3] 47 C.F.R. § 54.407(b) (2019).
[4] See the Beneficiary's response to the Audit Inquiry Record on March 2, 2023.

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
653700	Non-Tribal Lifeline	$3,089
669004	Non-Tribal Lifeline	$15
659002	Non-Tribal Lifeline	$35
	Total:	**$3,139**

RECOMMENDATION

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

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

BENEFICIARY RESPONSE

We agree with the Auditor's findings and recommendations. The following corrective measures are implemented:

1. Timely and regular reconciliation of subscriber listing from our billing register with the Lifeline Claims systems.
2. Updated records in the billing system to remove the expiration date although this is already mitigated by the monthly reconciliation.
3. We send regular reminders and updates to our Customer Service group that handles Lifeline transactions.
4. Develop SMEs (subject -matter-experts) on Lifeline Programs within our Customer Service group.
5. Brush up on the Lifeline program rules and BCAP common Audit findings.

Finding #2: 47 C.F.R. § 54.405(e)(1)(2019) – Failure to De-enroll Subscribers Timely

CONDITION

AAD selected a non-statistical sample of five subscribers identified in the Identity Verifying database as deceased and obtained and examined documentation to determine Beneficiary outreach and timely de-enrollment, as applicable. AAD identified that for three of the five deceased subscribers, the Beneficiary switched the subscriber's billing account to another member of the subscriber's household after learning of the subscriber's death but continued to claim Lifeline support for the deceased subscriber. Additionally, the Beneficiary failed to de-enroll one of the five deceased subscribers timely after three missed bill payments. Per the FCC Rules, a carrier should not claim for reimbursement a subscriber that they cannot verify the identity of the subscriber's status as alive and should timely de-enroll a subscriber if they have a reasonable basis to believe a subscriber is ineligible to continue receiving Lifeline support.[5] In addition, all subscribers

[5] 47 CFR § 54.404(b)(12) (2020); 47 CFR § 54.405(e)(1) (2019).

must qualify as a low-income consumer in order to receive the Lifeline benefit.[6] Because the Beneficiary either became aware of the subscriber's death or had reasonable suspicion that the subscriber was no longer eligible to receive support, AAD concludes that the Beneficiary was no longer eligible to claim Lifeline Program support for the four deceased subscribers.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of how to apply the FCC Rules requiring the de-enrollment process for deceased subscribers. The Beneficiary acknowledged that there was a breakdown in the process of communicating a subscriber's death, inadequate personnel training, and inconsistent reconciliation of the NLAD to the Beneficiary's billing system records.[7]

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the three subscribers from the time of notice to the Beneficiary and the last contact date after the subscriber failed to make three monthly payments until May 31, 2021. AAD identified a total of 32 such instances for subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25) and summarized the results in the table below:

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
653700	Non-Tribal Lifeline	$296

RECOMMENDATION

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

The Beneficiary must implement policies, controls, and procedures to ensure that subscribers are de-enrolled in a timely manner when the Beneficiary becomes aware or is alerted to the possibility that a subscriber is no longer eligible to receive Lifeline program support. In addition, the Beneficiary may learn more about the Lifeline program requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

We agree with the Auditor's finding and the Auditor's recommendations. The following corrective measures are implemented:

1. Timely and regular reconciliation of subscribers from our billing system with NLAD.
2. Reviewed recommended USAC's website on common audit findings.
3. Send reminders to Customer Service groups handling Lifeline transactions.
4. Develop SMEs on Lifeline Programs.

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[6] 47 CFR § 54.409 (2019).

[7] Response to summary of exceptions received May 4, 2023.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.407(b) (2019)	For each qualifying low-income consumer receiving Lifeline service, the reimbursement amount shall equal the federal support amount, including the support amounts described in § 54.403(a) and (c). The eligible telecommunications carrier's universal service support reimbursement shall not exceed the carrier's rate for that offering, or similar offerings, subscribed to by consumers who do not qualify for Lifeline.
#1	47 C.F.R. § 54.403(a)(1) (2019)	(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 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	47 C.F.R. § 54.405(e)(1) (2019)	(1) De-enrollment generally. If an eligible telecommunications carrier has a reasonable basis to believe that a Lifeline subscriber no longer meets the criteria to be considered a qualifying low-income consumer under § 54.409, the carrier must notify the subscriber of impending termination of his or her Lifeline service. Notification of impending termination must be sent in writing separate from the subscriber's monthly bill, if one is provided, and must be written in clear, easily understood language. A carrier providing Lifeline service in a state that has dispute resolution procedures applicable to Lifeline termination that requires, at a minimum, written notification of impending termination, must comply with the applicable state requirements. The carrier must allow a subscriber 30 days following the date of the impending termination letter required to demonstrate continued eligibility. A subscriber making such a demonstration must present proof of continued eligibility to the carrier consistent with applicable annual re-certification requirements, as described in § 54.410(f). An eligible telecommunications carrier must de-enroll any subscriber who fails to demonstrate eligibility within five business days after the expiration of the subscriber's time to respond. A carrier providing Lifeline service in a state that has dispute resolution procedures applicable to Lifeline termination must comply with the applicable state requirements.
#2	47 C.F.R. § 54.404(b)(12) (2020)	(b) **The National Lifeline Accountability Database.** In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with

Finding	Criteria	Description
		approved valid certification pursuant to paragraph(a) of this section must comply with the following requirements: (12) An eligible telecommunications carrier must not enroll or claim for reimbursement a prospective subscriber in Lifeline if the National Lifeline Accountability Database or National Verifier cannot verify the identity of the subscriber or the subscriber's status as alive, unless the subscriber produces documentation to demonstrate his or her identity and status as alive.
#2	47 C.F.R. § 54.409 (2019)	(a) To constitute a qualifying low-income consumer: (1) A consumer's household income as defined in § 54.400(f) must be at or below 135% of the Federal Poverty Guidelines for a household of that size; or (2) The consumer, one or more of the consumer's dependents, or the consumer's household must receive benefits from one of the following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal Public Housing Assistance; or Veterans and Survivors Pension Benefit. (b) A consumer who lives on Tribal lands is eligible for Lifeline service as a “qualifying low-income consumer” as defined by § 54.400(a) and as an “eligible resident of Tribal lands” as defined by § 54.400(e) if that consumer meets the qualifications for Lifeline specified in paragraph (a) of this section or if the consumer, one or more of the consumer's dependents, or the consumer's household participates in one of the following Tribal-specific federal assistance programs: Bureau of Indian Affairs general assistance; Tribally administered Temporary Assistance for Needy Families; Head Start (only those households meeting its income qualifying standard); or the Food Distribution Program on Indian Reservations. (c) In addition to meeting the qualifications provided in paragraph (a) or (b) of this section, in order to constitute a qualifying low-income consumer, a consumer must not already be receiving a Lifeline service, and there must not be anyone else in the subscriber's household subscribed to a Lifeline service.

This concludes the report.

Attachment E

LI2022LR007

Palmetto Rural Telephone Cooperative, Inc.

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

USAC Audit No. LI2022LR007

CONTENTS

EXECUTIVE SUMMARY

November 15, 2023

Mr. Dewaine Wilson
Chief Financial Officer
Palmetto Rural Telephone Cooperative, Inc.
2471 Jefferies Highway
Walterboro, SC 29488

Dear Mr. Wilson:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Palmetto Rural Telephone Cooperative, Inc. (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers for the 18-month period from January 1, 2020 through June 30, 2021, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited 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) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanett Santana Gonzalez

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions[1] (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.408(e) - Lifeline Claims Exceed Minimum Service Standards Offered The Beneficiary claimed the full Lifeline support for broadband subscribers who were ineligible because their service plans did not meet the minimum service standards for fixed broadband service.	$3,636	$0	$3,636
Finding #2: 47 C.F.R. § 54.417(a) - Lack of and Inadequate Documentation: Eligibility Documents and Certification Forms The Beneficiary did not provide proper proof of eligibility or properly completed certification forms for certain subscribers.	$2,837	$308	$2,529
Total Net Monetary Effect	**$6,473**	**$308**	**$6,165**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the 18 month period from January 1, 2020 through June 30, 2021 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
240536	South Carolina	Non-Tribal Lifeline	656	$75,783
249023	South Carolina	Non-Tribal Lifeline	126	$13,509
		Total	**782**	**$89,292**

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

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

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

C. Lifeline Subscriber Discounts

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

D. Form 555

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

E. Minimum Service Standard

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

F. Enrollment Representative Accountability

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

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 54.408(e) - Lifeline Claims Exceed Minimum Service Standards Offered

CONDITION

AAD obtained and examined the Beneficiary's billing register for its population of Lifeline subscribers to determine if the benefit claimed per the LCS was passed through to its subscribers and whether the service plans per the billing register met the minimum service standards. AAD identified that the Beneficiary claimed the full Lifeline benefit of $9.25 for 174 of its 872 broadband subscribers in LCS, although their service plans did not meet the minimum service standard per the FCC Rules. Specifically, the service plans offered to these 174 subscribers were in the range of 3MB – 15MB download and 1MB – 2MB upload. Wireline carriers offering broadband service to its Lifeline customers are only allowed to claim the full Lifeline benefit amount if it offers fixed broadband speeds of at least 20 Mbps downstream and 3 Mbps upstream for the period December 2019 to November 2020 and 25 Mbps downstream and 3 Mbps upstream for the period December 2020 to November 2021.[2] The FCC provides an exception where carriers who do not offer any generally available fixed broadband package that meets the minimum service standard at a subscriber's residence, may receive Lifeline support if they offer fixed broadband service of at least 4Mbps downstream and 1Mbps upstream in that given area.[3] However, in this case, the Beneficiary offered service plans that were generally available in the subscribers' residential area and met the minimum service requirements, but nonetheless failed to provide some of its Lifeline subscribers with these service plans that contained the minimum service standard necessary to receive Lifeline support. Therefore, AAD concludes that the Beneficiary incorrectly claimed the full Lifeline support for broadband subscribers who were ineligible because their service plans did not meet the minimum service standards for fixed broadband service. The Beneficiary should have claimed the reduced support amount applicable to the time period for the subscriber.[4]

CAUSE

The Beneficiary did not have adequate controls in place to ensure the rules establishing the minimum service standards for Lifeline program support are applied when passing through the benefit to its Lifeline subscribers. According to the Beneficiary, the billing system was not updated to reflect FCC Rules. The Beneficiary did not have procedures to ensure subscribers not meeting the minimum service standard for broadband, were claimed for voice services instead of broadband.[5]

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[2] *See Wireline Competition Bureau Announces Updated Lifeline Minimum Service Standards and Indexed Budget Amount*, Public Notice, 34 FCC Rcd 6363, 6364 (WCB 2019); *Wireline Competition Bureau Announces Updated Lifeline Minimum Service Standards and Indexed Budget Amount*, Public Notice, 35 FCC Rcd 8121, 8122 (WCB 2020).

[3] Id; *see also* CFR § 54.408(d).

[4] *See Lifeline and Link Up Reform and Modernization et al., WC Docket No. 11-42 et al., Third Report and Order, Further Report and Order, and Order on Reconsideration*, 31 FCC Rcd 3962, 4000, para. 103 n.302 (2016).

[5] Beneficiary response per the Audit Results Summary received on June 14, 2023.

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances the Beneficiary claimed full Lifeline support for the 174 broadband subscribers when they should have instead claimed the reduced support amount. AAD identified a total of 1,323 instances and summed the difference between the full support ($9.25) and the reduced amount of those instances ($7.25/$5.25) rounded to the nearest whole dollar. In total, there were 828 instances at $2 and 495 instances at $4. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
240536	Non-Tribal Lifeline	$3,248
249023	Non-Tribal Lifeline	$388
	Total	**$3,636**

RECOMMENDATION

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

The Beneficiary must implement policies, controls, and procedures to ensure that Lifeline Program support is only provided to subscribers that receive the minimum service standard. In addition, the Beneficiary may learn more about the Lifeline program requirements for minimum service standards on USAC's website at https://www.usac.org/lifeline/rules-and-requirements/minimum-service-standards/.

BENEFICIARY RESPONSE

Palmetto Rural Telephone Cooperative, Inc. (PRTC) and Palmetto Telephone Communications, LLC (PTC) have completed its fiber to the home project and all residenital [sic] broadband customers subscribe [sic] to at least 25 MB/3 MB. Before the fiber conversion, there were instances when the customers on copper could only get the speed they were subscribed to and under Lifeline rules, the customer would qualify for the full benefit. Unfortunately without extensive research, I cannot verify which of the customers were on copper and the speed was the maximum the customer could receive. Additionally, the money received from USAC for the credit was passed on to the customer.

AAD RESPONSE

In its response, the Beneficiary stated that the subscribers received the speed they were subscribed to before fiber conversion at the maximum speed the Beneficiary could provide. However, the Beneficiary did not provide evidence that the subscribers that were not receiving the minimum service standard for fixed broadband were actually receiving the highest service offering that was available to the subscribers in order to claim full Lifeline benefit. Therefore, AAD's position remains unchanged.

FINDING #2: 47 C.F.R. § 54.417(a) - Lack of and Inadequate Documentation: Eligibility Documents and Certification Forms

CONDITION

AAD obtained and examined certification forms and proof of eligibility documentation for a non-statistical sample of 25 new subscribers enrolled prior to the launch of the National Verifier to determine whether the subscribers accurately completed the certification forms (forms) and were eligible to receive the Lifeline support claimed by the Beneficiary.

For the 25 samples, 22 subscribers in total either lacked documentation or the documentation provided was not adequate to satisfy the requirements as detailed below:

Lack of Documentation	No. of Affected Forms
A Subscriber's eligibility document[6]	1
Inadequate Documentation	
Supplemental Nutrition Assistance Program (SNAP) debit cards did not have an issuance or expiration date to confirm current eligibility for enrollments.[7]	12
Medicaid cards that either did not have an expiration or issuance date or the date could not confirm current eligibility for enrollments.[8]	7
BQP name listed in NLAD differed from the name listed on the eligibility documentation received.[9]	1
Certification form did not include the Subscriber's Social Security Number. [10]	1
Certification form signed and disclosures initialed by someone other than the Subscriber.[11]	1
Certification form did not include the Subscriber's initials for the first three disclosures and was not dated by the Subscriber.[12]	1
Certification form retained did not include the pages documenting the Subscriber's name, date of birth (DOB), SSN, and disclosures.[13]	1
Total No. of Affected Subscribers[14]	**22**

Because the Beneficiary failed to provide supporting documentation or adequate supporting documentation and ensure forms were properly completed, AAD concludes that 22 subscribers were not eligible to receive the

[6] 47 C.F.R. § 54.410(c)(1)(i)(B)(2019).
[7] *Id.*
[8] *Id.*
[9] 47 C.F.R. § 54.404(b)(6)(2019).
[10] 47 C.F.R. § 54.410(c)(1)(2019).
[11] *Id.*
[12] *Id.*
[13] *Id.*
[14] Documentation for each subscriber certification may have errors in multiple required fields. Therefore, one certification may be included in multiple rows in the table above.

Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have adequate procedures in place for reviewing the forms and eligibility documentation and employees lacked the knowledge of the requirements for completing the Lifeline form.[15]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 22 subscribers subsequent to the subscriber's Lifeline start date, as noted in NLAD, until May 31, 2021. AAD identified a total of 334 instances for subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary per month. In total there were 260 months reimbursed at $9.25, 22 months reimbursed at $7.25, and 52 months reimbursed at $5.25. AAD summarized the results below:

SAC	Support Type	Monetary Effect (A)	Overlapping Exceptions (B)[16]	Monetary Effect and Recommended Recovery (A) - (B)
240536	Non-Tribal Lifeline	$2,360	$250	$2,110
249023	Non-Tribal Lifeline	$477	$58	$419
	Total	**$2,837**	**$308**	**$2,529**

RECOMMENDATION

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

Since the launch of the National Verifier, reviewing/approving new subscriber applications is now the responsibility of USAC. AAD clarifies that this condition was noted prior to the launch of the National Verifier. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at [https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.](https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/)

BENEFICIARY RESPONSE

> Unfortunately, SC SNAP cards and Medicaid cards do not have expiration dates on the card. The National Verifier launched in SC in October 2019 which was before the May 2021 audit date. If a customer provided an approval letter for Lifeline and the CSR looked at it and copied the SNAP or Medicaid card, the CSR would not think that the customer does not qualify.

[15] Beneficiary response to the Audit Results Summary received June 14, 2023.

[16] A portion of the monetary effect totaling $308 for this finding overlaps with the monetary effect of Finding #1.

It is unfortunate that as a service provider, Palmetto is in the middle adding the benefit to the customer's account per the customer's request and now may incur a debt for money that has been passed on to the customer.

If the customer gets an approval letter and has uploaded documentation and passed the National Verifier, is it really necessary for service providers to make copies of the qualifying documentation?

AAD RESPONSE

The issues cited in this finding all occurred prior to the National Verifier's hard launch date of January 22, 2020. Therefore, the Beneficiary still had the responsibility of reviewing the eligibility documentation to ensure that the subscriber was actively participating in the qualifying program at the time of Lifeline enrollment. Additionally, the Beneficiary provided no other documentation, such as the approval letters noted in the Beneficiary Response above, that indicated the subscriber's eligibility date or current eligibility for SNAP or Medicare. Therefore, AAD's position remains unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. §54.408(e) (2019)	Except as provided in paragraph (d) of this section, eligible telecommunications carriers shall not apply the Lifeline discount to offerings that do not meet the minimum service standards.
#1	*Wireline Competition Bureau Announces Updated Lifeline Minimum Service Standards and Indexed Budget Amount*, Public Notice, 34 FCC Rcd 6363, 6364, para. 2 (WCB Jul. 25, 2019).	Fixed broadband minimum service standards. Pursuant to the 2016 Lifeline Order, beginning December 1, 2019, the Lifeline minimum service standard for fixed broadband speed will be 20 Mbps downstream and 3 Mbps upstream
#1	*Wireline Competition Bureau Announces Updated Lifeline Minimum Service Standards and Indexed Budget Amount*, Public Notice, 35 FCC Rcd 8121, 8122, para. 2 (WCB Jul. 31, 2020).	Fixed broadband minimum service standards. Pursuant to the 2016 Lifeline Order, beginning December 1, 2020, the Lifeline minimum service standard for fixed broadband speed will be 25 Mbps downstream and 3 Mbps upstream.
#1	47 C.F.R. §54.408(d) (2019)	Exception for certain fixed broadband providers. Subject to the limitations in paragraphs (d)(1) through (4) of this section, the Lifeline discount may be applied for fixed broadband service that does not meet the minimum standards set forth in paragraph (b)(1) of this section. If the provider, in a given area: (1) Does not offer any fixed broadband service that meets our minimum service standards set forth in paragraph (b)(1) of this section; but (2) Offers a fixed broadband service of at least 4 Mbps downstream/1 Mbps upstream in that given area; then, (3) In that given area, a fixed broadband provider may receive Lifeline funds for the purchase of its highest performing generally available residential offering, lexicographically ranked by: (i) Download bandwidth; (ii) Upload bandwidth; and (iii) Usage allowance. (4) A fixed broadband provider claiming Lifeline support under this section will certify its compliance with this section's requirements and will be subject to the Commission's audit authority.
#2	47 C.F.R. § 54.417(a) (2019)	(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

Finding	Criteria	Description
		telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years
#2	47 C.F.R. § 54.410(c)(1) (i)(B) (2019)	Initial program-based eligibility determination. (1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b), an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures: (B) If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program.
#2	47 C.F.R. § 54.404 (b)(6) (2019)	The National Lifeline Accountability Database. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline.

This concludes the report.

Attachment F

LI2022LR008

Available For Public Use

Fort Mojave Telecommunications Inc.

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

USAC Audit No. LI2022LR008

CONTENTS

EXECUTIVE SUMMARY

November 15, 2023

Mr. Michael Scully
General Manager
Fort Mojave Telecommunications, Inc.
8490 South Highway 95, Suite 104
Mohave Valley, AZ 86440

Dear Mr. Scully:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Fort Mojave Telecommunications, Inc. (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers during the 18 month period from January 1, 2020 through June 30, 2021, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited 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) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanette Santana Gonzalez

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

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions[1] (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.407(b) - Failure to Pass Through Full Lifeline Support The Beneficiary failed to pass through the full Lifeline amount claimed to certain subscribers.	$1,901	$0	$1,901
Finding #2: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Failure to De-Enroll The Beneficiary failed to de-enroll certain subscribers who failed to recertify.	$515	$147	$368
Total Net Monetary Effect	**$2,416**	**$147**	**$2,269**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the 18-month period from January 1, 2020 through June 30, 2021 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
452200	Arizona	Tribal Lifeline	1,739	$46,221
		Total	**1,739**	**$46,221**

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

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 14 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Lifeline Subscriber Discounts

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

D. Form 555

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

E. Minimum Service Standard

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

F. Enrollment Representative Accountability

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

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 54.407(b) (2019) – Failure to Pass Through Full Lifeline Support

CONDITION

AAD obtained and examined the Beneficiary's billing registers for the audit period to determine if the Lifeline Program support disbursed to the Beneficiary per the LCS was passed onto subscribers in full. AAD determined that for 18 of the 105 Lifeline subscribers, the amount disbursed to the Beneficiary exceeded the amount passed through to the subscribers as detailed below:

Support per LCS (A)	Support per Billing Registers (B)	Difference (A-B)
$6,368	**$4,467**	**$1,901**

The FCC Rules require that the Beneficiary reimburse the subscribers for an amount equal to the amount of Lifeline Program support disbursed to the Beneficiary.[2] Therefore, AAD concludes that the Beneficiary did not pass through the full benefit it claimed per the LCS.

CAUSE

The Beneficiary did not have adequate controls and procedures to ensure the full benefit was passed through to claimed subscribers. The Beneficiary attributed the variances to a failure to consistently track customer status changes, as well as data that was entered into either NLAD or their billing system incorrectly.[3]

EFFECT

AAD calculated the monetary effect for this finding by determining the difference between the Lifeline support distributed for the 18 subscribers per the LCS and the Lifeline support passed through to the subscribers per the billing registers, rounded to the nearest dollar. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
Tribal Lifeline	$1,901

RECOMMENDATION

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

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

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[2] 47 C.F.R. § 54.407(b) (2019).

[3] *See* Beneficiary response to audit inquiries, received Jan. 27, 2023.

BENEFICIARY RESPONSE

The Beneficiary has implemented a check system whereby Lifeline data is reviewed by third-party consultants to ensure accuracy and that it passes through the full amount of Lifeline Program support to its eligible Lifeline subscribers.

FINDING #2: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Failure to De-enroll

CONDITION

AAD obtained and examined the Beneficiary's 2019 recertification details that corresponded to the Form 555 recertification submission for 2019, to determine whether the Beneficiary de-enrolled subscribers who failed to recertify their continued eligibility. The Beneficiary did not de-enroll seven of the 91 subscribers who failed to recertify within five business days of the recertification deadline. The Beneficiary continued to claim Lifeline support for all seven subscribers an additional three months[4] past the required de-enrollment period. Because the Beneficiary did not de-enroll the subscribers who failed to recertify their continued eligibility, AAD concludes that the seven subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to maintain an accurate subscriber listing in NLAD by ensuring that subscribers who had failed to recertify were properly de-enrolled. The Beneficiary stated that the company did not have a process in place to ensure timely recertification or removal of subscribers.[5]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the seven subscribers after the month of the 2019 anniversary of the service initiation date for each subscriber but before the March 17, 2020.[6] AAD identified a total of 21 instances for subscribers. AAD multiplied the number of instances by the Lifeline support amount reimbursed to the Beneficiary ($24.50), rounded to the nearest whole dollar.

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[4] *See Lifeline and Link Up Reform and Modernization et.al.*, DA-20-285, WC Docket No. 11-42 [COVID waivers went into effect and de-enrollments were halted for failing to recertify beginning on March 17, 2020]. Thus, USAC did not calculate the overpayment of the benefit past the start of the COVID waivers.

[5] *See* Beneficiary response to the Summary of Exceptions (received Jun. 5, 2023).

[6] *See Lifeline and Link Up Reform and Modernization et.al.*, DA-20-285, WC Docket No. 11-42 [COVID waivers went into effect and de-enrollments were halted for failing to recertify beginning on March 17, 2020]. Thus, USAC did not calculate the overpayment of the benefit past the start of the COVID waivers. Note that these waivers continued past the scope of this audit. *See* Lifeline and Link Up Reform and Modernization et.al., DA 23-84, WC Docket No. 11-42.

Support Type	Monetary Effect (A)	Overlap with Other Finding (B)	Recommended Recovery (A) - (B)
Tribal Lifeline	$515	$147	$368

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure it de-enrolls subscribers who have failed to demonstrate their continued eligibility by the required deadline. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

The Beneficiary is implementing policies, procedures, and controls to ensure it de-enrolls subscribers who have failed to demonstrate their continued eligibility by the required deadline by having a tracking process for customers who are due to be recertified so that customers can be recertified or removed timely via a spreadsheet that tracks each Lifeline customer's annual recertification date. The Beneficiary also has a third-party reviewing Lifeline data and inquiring about de-enrollment of subscribers each month.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.407(b) (2019)	For each qualifying low-income consumer receiving Lifeline service, the reimbursement amount shall equal the federal support amount, including the support amounts described in § 54.403(a) and (c). The eligible telecommunications carrier's universal service support reimbursement shall not exceed the carrier's rate for that offering, or similar offerings, subscribed to by consumers who do not qualify for Lifeline.
#2	47 C.F.R. § 54.405(e)(4) (2019)	*De-enrollment for failure to re-certify.* Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by § 54.410(f); or who fails to provide the annual one-per-household re-certifications as required by § 54.410(f). Prior to de-enrolling a subscriber under this paragraph, the eligible telecommunications carrier must notify the subscriber in writing separate from the subscriber's monthly bill, if one is provided, using clear, easily understood language, that failure to respond to the re-certification request will trigger de-enrollment. A subscriber must be given 60 days to respond to recertification efforts. If a subscriber does not respond to the carrier's notice of impending de-enrollment, the carrier must de-enroll the subscriber from Lifeline within five business days after the expiration of the subscriber's time to respond to the re-certification efforts.
#2	Lifeline and Link Up Reform and Modernization et.al., DA-20-285, WC Docket No. 11-42, March 17, 2020	(2) In response to the public health emergency associated with the coronavirus COVID-19 pandemic, the Wireline Competition Bureau (Bureau) temporarily waives, on its own motion, the Lifeline program's recertification requirements for 60 days…We will continue to monitor the situation to determine whether any additional waiver of these rules and deadlines is needed.

This concludes the report.