



High Cost & Low Income Committee

Audit Reports Briefing Book

Monday, October 27, 2025

Available for Public Use

Universal Service Administrative Company

700 12th Street, NW, Suite 900

Washington, DC, 20005

Summary of the High Cost Support Mechanism Beneficiary Audit Report Released: July 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A Electra Telephone Company	6	• <u>Inadequate Continuing Property Records (CPRs)</u>: The Beneficiary did not maintain CPRs for its cable and wire facility equipment. • <u>Improper Allocation Methodology</u>: The Beneficiary used an improper methodology to support its payroll expense.	\$975,185	\$160,205	\$160,205	Partial
Total	6		\$975,185	\$160,205	\$160,205	

INFO Item: Audit Released July 2025
Attachment A
10/27/2025

Attachment A

HC2023LR026

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

LIMITED SCOPE PERFORMANCE AUDIT

ELECTRA TELEPHONE COMPANY

**LIMITED SCOPE PERFORMANCE AUDIT ON COMPLIANCE WITH THE FEDERAL
UNIVERSAL SERVICE FUND HIGH COST SUPPORT MECHANISM RULES**

USAC AUDIT No. HC2023LR026



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Executive Summary

April 29, 2025

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “we”) was engaged to conduct a limited scope performance audit on the compliance of Electra Telephone Company (Beneficiary), study area code 442069, for disbursements made from the federal Universal Service High Cost Program (HC Program) during the year ended December 31, 2021. We conducted the audit fieldwork from March 7, 2023 to April 29, 2025.

We conducted the limited scope 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 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 limited scope performance audit were to evaluate the Beneficiary’s compliance with the regulations and orders governing the federal Universal Service HC Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission’s (FCC’s) Orders governing the Universal Service Support for the HC Program relative to disbursements (collectively, FCC Rules). Compliance with FCC Rules is

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

the responsibility of the Beneficiary’s management. Our responsibility is to evaluate the Beneficiary’s compliance with FCC Rules based on our limited scope performance audit.

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

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

Audit Results and Recovery Action

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

Audit Results	Monetary Effect				Recommended Recovery ²
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 32.2000(e) (2020) – Improper Continuing Property Records (CPRs). The Beneficiary failed to maintain a complete detailed CPR for cable and wire facility (CWF) equipment.	\$57,287	\$121,190	\$0	\$178,477	\$178,477
Finding No. 2, 47 C.F.R. § 32.27 (a).(b) (1-3) (2020) – Improper Methods of Determining Original Cost of Assets. The Beneficiary did not record the value for two of the sampled assets at	(\$35,115)	(\$102,463)	\$0	(\$137,578)	\$0

² The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

Audit Results	Monetary Effect				Recommended Recovery ²
	CAF BLS	HCL	CAF ICC	Total	
the lower of fair market value and net book cost.					
Finding No. 3, 47 C.F.R. § 64.901 (2020) – Improper Reconciliation Between General Ledger and Cost Study for Dash 2 Filing and 47 C.F.R. § 32.12(a)-(c) (2020) – Improper Reconciliation Between General Ledger and Trial Balance for Dash 4 Filing. The Beneficiary did not properly reconcile its general ledger to its Cost Study for its Dash 2 filing, nor did it properly reconcile its general ledger to its trial balance for its Dash 4 filing.	\$0	\$15,862	\$0	\$15,862	\$15,862
Finding No. 4, 47 C.F.R. § 64.901 (2020) – Improper Allocation Methodology – Payroll Expense. The Beneficiary used an improper methodology to support its payroll expense allocation.	\$41,888	\$69,172	\$0	\$111,060	\$111,060
Finding No. 5, 47 C.F.R. § 32.2000(g)(2) (2020) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary reported incorrect depreciation expense and accumulated depreciation amounts to USAC for HC Program purposes.	(\$1,093)	(\$4,203)	\$0	(\$5,296)	\$0
Finding No. 6, 47 C.F.R. § 64.901 (2020) – Improper Cost Allocation and 47 C.F.R. § 32.12(a-c) (2020) –	(\$1,358)	(\$962)	\$0	(\$2,320)	\$0

Audit Results	Monetary Effect				Recommended Recovery ²
	CAF BLS	HCL	CAF ICC	Total	
Part 32 Misclassification of Affiliate Transactions. The Beneficiary used an improper cost allocation methodology and misclassified affiliate transactions.					
Total Net Monetary Effect	<u>\$61,609</u>	<u>\$98,596</u>	<u>\$0</u>	<u>\$160,205</u>	<u>\$305,399</u>

USAC Management Response

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 442069, 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 No. 1	\$57,287	\$121,190	\$0	\$178,477	N/A
Finding No. 2	(\$35,115)	(\$102,463)	\$0	(\$137,578)	N/A
Finding No. 3	\$0	\$15,862	\$0	\$15,862	N/A
Finding No. 4	\$41,888	\$69,172	\$0	\$111,060	N/A
Finding No. 5	(\$1,093)	(\$4,203)	\$0	(\$5,296)	N/A
Finding No. 6	(\$1,358)	(\$962)	\$0	(\$2,320)	N/A
Total	<u>\$61,609</u>	<u>\$98,596</u>	<u>\$0</u>	<u>\$160,205</u>	N/A

Background and Program Overview

Background

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunication service to more than 500 subscribers in Wichita and Wilbarger Counties, Northwest Texas. It also provides other services, including long-distance services, Digital Subscriber Line (DSL) connections, and fiber internet connections. It is a wholly owned subsidiary of Hilliary Acquisition Corp. Texas, LLC (HACT).

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 collection and disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

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

- **High Cost Loop (HCL) Support:** HCL is available for rural companies operating in service areas where the cost to provide service exceeds 115 percent of the national average cost per loop.
- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (ICC) Support:** CAF ICC support is available to rate-of-return ILECs to assist them in offsetting ICC revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's eligible recovery begins with its base period revenue. A rate-of-return carrier's base period revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011 and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The base period revenue for rate-of-return carriers is reduced by 5 percent in each year beginning with the first year of the reform. A rate-of-return carrier's eligible recovery is equal to the adjusted base period revenue for the year in question, less—for the relevant year of the transition—the sum of: (1) projected terminating intrastate

switched access revenue, (2) projected interstate switched access revenue, and (3) projected net reciprocal compensation revenue.

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

Objective, Scope, and Procedures

Objective

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

Scope

The chart below summarizes the HC Program support included in the audit scope.

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
CAF BLS	2019	2021	\$448,949
HCL	2019	2021	\$455,064
CAF ICC	2018-2020	2021	\$71,172
Total			<u>\$975,185</u>

Procedures

We performed the following procedures:

A. High Cost Program Support Amount

We recalculated the support that the Beneficiary received for each HC component to determine whether there were no more than nominal differences between the amounts received and those recorded in the HC system.

B. High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the HC Program to determine whether the Beneficiary complied with FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information

in its HC data filings based on the dates established by FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets

We obtained and examined the Beneficiary's CPRs, work orders, invoices, and related documentation to determine whether the Beneficiary reported accurate balances for central office switching equipment, as well as for CWF equipment. We also examined documentation and conducted a physical inventory to determine whether the Beneficiary categorized fixed assets using 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. § 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 used to calculate HC 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 No. 1, 47 C.F.R. § 32.2000(e) (2020) – Improper CPRs

Condition

We obtained and examined the Beneficiary’s general ledger for the 12-month periods ending December 31, 2019 (Dash 1); March 30, 2020 (Dash 2); and September 30, 2020 (Dash 4). We also reviewed other supporting documents, including CPRs, a valuation report and court records, to determine whether the Beneficiary properly recorded the asset balances for HC Program purposes.

FCC Rules stipulate that CPRs shall be maintained in a manner that will meet the following basic objectives: (1) provide for the verification of property record units by physical examination, (2) provide for accurate accounting for retirements, and (3) provide data for use in connection with depreciation studies.³ Further, FCC Rules note that the Beneficiary must maintain CPRs that preserve the following detailed information regarding each asset: identity, vintage, location, date placed in service, and original cost.⁴ However, the Beneficiary’s CPRs did not provide the identity, vintage, location, date placed in service, or the original cost of CWF equipment reported in its High Cost filings. This includes amounts of \$4,178,867 for Dash 1, \$4,178,867 for Dash 2, and \$4,458,805 for Dash 4.

Because the Beneficiary’s CPRs did not include sufficient detail to enable us to verify the physical existence, location, date placed in service, the original cost of its CWF assets, accurate accounting for retirement, or depreciation calculation, we conclude that the Beneficiary did not maintain proper and auditable CPRs.

We summarized the effect on the Part 64 and Part 36 balances resulting from the Beneficiary’s improper CPRs in the tables below:

³47 C.F.R. § 32.2000(e)(7)(2020).

⁴47 C.F.R. § 32.2000(e)(1)(2020).

Recalculation of Part 64 Balances			
Dash 1: 12-Month Period Ended December 31, 2019			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Telephone Plant in Service (Account 2001)	\$9,351,511	\$5,172,644	\$4,178,867
Accumulated Depreciation (Account 3100)	\$4,740,686	\$2,456,549	\$2,284,137
CWF (Account 2410)	\$8,036,494	\$3,857,627	\$4,178,867
Accumulated Depreciation CWF (Account 2410-3100)	\$4,392,686	\$2,108,549	\$2,284,137
CWF Expense (Account 6410)	\$71,531	\$34,336	\$37,195
Depreciation Expense CWF (Account 2410-6560)	\$151,359	\$72,654	\$78,705
Average CWF (DL700)	\$8,036,494	\$3,857,627	\$4,178,867
Category 1 Investment for CWF (DL710)	\$4,580,216	\$2,198,566	\$2,381,650

Recalculation of Part 64 Balances			
Dash 2: 12-Month Period Ended March 31, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Telephone Plant in Service (Account 2001)	\$9,351,510	\$5,172,643	\$4,178,867
Accumulated Depreciation (Account 3100)	\$4,740,686	\$2,456,549	\$2,284,137
CWF Asset (Account 2410)	\$8,036,494	\$3,857,627	\$4,178,867
Accumulated Depreciation – CWF Asset (Account 2410-3100)	\$4,393,026	\$2,108,889	\$2,284,137
CWF Expense (Account 6410)	\$84,508	\$47,313	\$37,195
Depreciation Expense – CWF (Account 2410-6560)	\$151,359	\$72,654	\$78,705
Average CWF (DL700)	\$8,036,494	\$3,857,627	\$4,178,867
Average Category 1 CWF (DL710)	\$4,580,216	\$2,198,566	\$2,381,650

Recalculation of Part 64 Balances			
Dash 4: 12-Month Period Ended September 30, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Telephone Plant in Service (Account 2001)	\$9,681,798	\$5,222,993	\$4,458,805
Accumulated Depreciation (Account 3100)	\$4,883,896	\$2,542,219	\$2,341,677
CWF (Account 2410)	\$8,364,148	\$3,905,343	\$4,458,805
Accumulated Depreciation – C&WF (Account 2410-3100)	\$4,506,228	\$2,164,551	\$2,341,677
CWF Expense (Account 6410)	\$143,740	\$105,608	\$38,132
Depreciation Expense – CWF (Account 2410-6560)	\$151,382	\$70,695	\$80,687
Average CWF (DL700)	\$8,364,148	\$3,905,343	\$4,458,805
Average Category-1 CWF (DL710)	\$5,010,831	\$2,339,630	\$2,671,201

Impact on CWF Categorization ⁵				
Category	Original Part 36 Balance	Allocation %	Revised Part 36	Unsupported Balance
Cat 1 – Exchange Line Wideband (WB)	\$4,197,841	55%	\$1,891,984	2,305,857
Cat 2.1 – Exchange Line Ethernet	\$21,973	0%	\$9,903	12,070
Cat 2.2 – Exchange Line WB- Data Only Digital Subscriber Line (DSL)	\$123,296	2%	\$55,570	67,726
Cat 2.3 – WB Line	\$176,816	2%	\$79,692	97,124
Cat 2.4 – Exch Trunk Exchange Active Sync	\$242,410	3%	109,255	133,155
Cat 3 – Interexchange CWF	\$2,845,344	37%	\$1,282,408	1,562,936
Cat 4 – Host / Remote CWF	<u>\$0</u>	<u>0%</u>	<u>\$0</u>	<u>0</u>
Total	<u>\$7,607,680</u>	<u>100%</u>	<u>\$3,428,812</u>	<u>\$4,178,868</u>

⁵ The balances reported for CWF categorization for 2021 HC Program disbursements are as of December 31, 2019. Additionally, the balances reported for Category 1 do not agree to the Recalculation of Part 64 Balances tables because the Beneficiary reported average balances in Category 1 and ending balances in Part 64.

Cause

The Beneficiary stated that it was not able to update its CPRs to include all required information because HACT did not receive the required information when it acquired the Beneficiary from Townes Telecommunications, Inc. (Townes), despite requesting this information.⁶

Per HACT, Townes did not provide HACT with all of the Beneficiary’s documentation during the acquisition, causing HACT, the Beneficiary, and one other subsidiary of HACT to file a claim against Townes in an attempt to obtain the remaining documentation. The court dismissed the case with prejudice; as a result, the Beneficiary was unable to retrieve all information required for the CPRs⁷ per FCC Rules.

Effect

We calculated the monetary effect to the Beneficiary’s HC Program filings by adjusting the CAF BLS and HCL algorithms to subtract the overstated amounts from the balances reported in its HC Program filings in the “Recalculation of Part 64 Balances” and “Impact to Cable and Wire Facilities Categorization for 2019” tables above. We have summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$57,287
HCL	\$121,190
CAF ICC	\$0
Total	<u>\$178,477</u>

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 and procedures to bring its CPRs into compliance with FCC Rules and to ensure that it maintains such records at the level of detail required by FCC Rules. Specifically, we recommend that the Beneficiary consider: (1) retroactively conducting a complete inventory or hiring an expert to conduct an inventory of the CWF plants in service, and (2) developing and implementing policies, procedures, and processes that describe how the Beneficiary will properly track asset

⁶ Per the “Petition of Electra Telephone Company Inc. For Limited Waiver of Section 54.313(f)(2)(ii)” court record that the Beneficiary provided.

⁷ Per the HACT – Townes Filed Dismissal document that the Beneficiary provided.

activity and update its CPRs to ensure the accuracy of balances reported for HC Program purposes.

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

Beneficiary Response

The Beneficiary disagreed with this finding as it believes it should be able to include the value of the CWF assets it acquired from Townes in its CPRs. Specifically, the Beneficiary stated that these assets were paid for, approved by the FCC, and used to provide universal service during the audit period. Despite the lack of work orders and invoices from Townes, the Beneficiary stated that it took all reasonable measures, including legal action, to obtain the necessary documentation and relied on the information provided by Townes to estimate the original cost of the assets.

The Beneficiary cited several sections of 47 C.F.R. § 32 to support its position that estimates are permissible when actual data is unknown. Specifically, it referenced:

- 47 C.F.R. § 32.2000(b)(2)(ii), which allows for the use of estimates for telecommunications plants acquired when the original cost is not known.
- 47 C.F.R. § 32.2000(f)(2)(iii), which states that entities should maintain property records to determine the actual cost or a reasonably accurate estimate of retired plant assets.
- 47 C.F.R. § 32.2000(f)(4), which permits the use of estimates for the original cost of property when actual costs cannot be ascertained.

The Beneficiary also disagreed with the recommendation that it hire an expert to conduct an inventory of the CWF plant, stating that a reputable engineering firm already performed a valuation prior to the acquisition that closely matches the net property and equipment balance shown in the audit report. The Beneficiary stated that excluding 100 percent of the cost of the acquired assets is unreasonable, as it would imply that these assets did not exist, despite their use in providing service.

Overall, the Beneficiary contends that Sikich's recommendations are inconsistent with FCC Rules. However, the Beneficiary agreed to the recommendation that it develop and implement policies, procedures, and processes to track asset activity and update its CPRs to ensure the accuracy of balances reported for HC Program purposes for assets purchased post-acquisition.

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

Sikich Response

Sikich reviewed various documents that the Beneficiary provided, including CPRs, court records, and an unrelated engineering firm's valuation report. However, neither the valuation report nor the CPRs (see the snapshot of the CPRs in the table below) contain the detailed asset required per FCC rules, such as identity, location, and date placed in service.

Further, because the CPRs lacked the detailed information mandated by FCC Rules, we were not able to select asset samples to verify the existence of the units by physical examination.

The table below contains a snapshot showing an example of the CPRs.

Unsupported CPRs								
Acct #	CPR Tbl	CPR #	Tax Area	Size	Description	Date	Qty	Book Cost
2423	Cable	683	OUTSIDE CITY	100	BFC 100 X 24	1/1/1900 0:00	4,254	\$25,950
2423	Cable	792	OUTSIDE CITY	100	BFC 100 X 24	1/1/1900 0:00	422	\$2,574
2423	Cable	803	OUTSIDE CITY	100	BFC 100 X 24	1/1/1900 0:00	554	\$3,379

As a result, our position regarding this finding remains unchanged. However, we modified our recommendation to address the Beneficiary's responses.

Finding No. 2, 47 C.F.R. § 32.27(a), (b) (1-3) (2020) – Improper Valuation Methods in Determining the Original Cost of Assets

Condition

We obtained and examined the Beneficiary's general ledger, CPRs, and other supporting documentation—including an unrelated engineering firm's valuation report—to determine whether the Beneficiary properly recorded the asset balances that it reported for HC Program purposes. We selected a non-statistical sample of seven assets⁸ totaling \$3,972,050 for testing.

We found that two of the seven sampled asset transactions (totaling \$3,000,000) were not valued properly to substantiate the value of each asset as recorded in the Beneficiary's general ledger. Specifically, although the Beneficiary valued the two sampled CWF assets at \$3,000,000 (based

⁸ Our sampling methodology was 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 account's effect on high-cost support. Due to the CPRs' inadequate information, we were only able to select limited number of samples.

on a valuation performed by an unrelated engineering firm⁹) the Summary of Base Fiber Network list¹⁰ the Beneficiary provided supported these assets had a book value of \$987,477¹¹ at the time the Beneficiary purchased them from Texhoma Fiber, LLC, a subsidiary of HACT, and an affiliate of the Beneficiary.

Because the assets were transferred from an affiliate company to the Beneficiary, which is a regulated carrier, the assets should have been recorded at no more than the lower of fair market value of the \$3,000,000 and net book cost of the \$987,477, per FCC Rules, unless otherwise approved.¹²

As the Beneficiary did not use a proper method to record the original cost of these two sampled assets, we concluded that the Beneficiary did not value their CWF assets, per FCC rules. The following table identifies the amount resulting from the improper valuation methodology for each sampled asset.

Sample #	Asset Sampled Description per CPRs	Total Value of Sample (Purchase Price) (A)	Sample Book Value (B)	Improper Sample Valuation (C = A-B)
1	12F	\$1,980,782	\$651,992	\$1,328,790
2	18F	<u>\$1,019,218</u>	<u>\$335,485</u>	<u>\$683,733</u>
Total		<u>\$3,000,000</u>	<u>\$987,477</u>	<u>\$2,012,523</u>

We summarized the effect on Part 64 and Part 36 balances resulting from the removal of the improper sample valuation of CWF assets in the tables below:

⁹ The Beneficiary provided a Telecommunications Infrastructure Valuation report from Monte R Lee and Company (MRL) that supported a \$3,000,000 replacement value for the two assets. The report was prepared on October 16, 2018, in response to Arvest Bank's request for loan purpose, in which MRL assessed the value of equipment and plants of the Beneficiary.

¹⁰ Per the Beneficiary's response to the Summary of Exceptions, received on March 26, 2024.

¹¹ We determined the book value of acquired assets by subtracting the accumulated depreciation from the asset account balance (\$1,410,681-\$423,204=\$987,477).

¹² 47 C.F.R. §32.27(b)(2020).

Recalculation of Part 64 Balances			
Dash 1: 12-Month Period Ended December 31, 2019			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Telephone Plant in Service (Account 2001)	\$9,351,511	\$7,338,988	\$2,012,523
Accumulated Depreciation (Account 3100)	\$4,740,686	\$3,640,656	\$1,100,030
CWF (Account 2410)	\$8,036,494	\$6,023,971	\$2,012,523
Accumulated Depreciation – CWF (Account 2410-3100)	\$4,392,686	\$3,292,656	\$1,100,030
CWF Expense (Account 6410)	\$71,531	\$53,618	\$17,913
Depreciation Expense – CWF (Account 2410-6560)	\$151,359	\$113,455	\$37,904
Average CWF (DL700)	\$8,036,494	\$6,023,971	\$2,012,523
Average Category1 CWF (DL710)	\$4,580,216	\$4,579,675	\$541

Recalculation of Part 64 Balances			
Dash 2: 12-Month Period Ended March 31, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Telephone Plant in Service (Account 2001)	\$9,351,510	\$7,338,987	\$2,012,523
Accumulated Depreciation (Account 3100)	\$4,740,686	\$3,640,571	\$1,100,115
CWF (Account 2410)	\$8,036,494	\$6,023,971	\$2,012,523
Accumulated Depreciation – CWF (Account 2410-3100)	\$4,393,026	\$3,292,911	\$1,100,115
CWF Expense (Account 6410)	\$84,508	\$63,345	\$21,163
Depreciation Expense – CWF (Account 2410-6560)	\$151,359	\$113,455	\$37,904
Average CWF (DL700)	\$8,036,494	\$6,023,971	\$2,012,523
Average Category 1 CWF (DL710)	\$4,568,937	\$3,424,770	\$1,144,167

Recalculation of Part 64 Balances			
Dash 4: 12-Month Period Ended September 30, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Telephone Plant in Service (Account 2001)	\$9,681,798	\$7,669,275	\$2,012,523
Accumulated Depreciation (Account 3100)	\$4,883,896	\$3,799,639	\$1,084,257
CWF (Account 2410)	\$8,364,148	\$6,351,625	\$2,012,523
Accumulated Depreciation – CWF (Account 2410-3100)	\$4,506,228	\$3,421,971	\$1,084,257
CWF Expense (Account 6410)	\$143,740	\$109,154	\$34,586
Depreciation Expense – CWF (Account 2410-6560)	\$151,382	\$114,958	\$36,424
Average CWF (DL700)	\$8,364,148	\$6,351,625	\$2,012,523
Average Category-1 CWF (DL710)	\$5,010,831	\$3,805,160	\$1,205,671

Impact on CWF Categorization for 2019 ¹³				
Category	Original Part 36 Balance	Allocation %	Revised Part 36	Variance Over/(Under) Reported (A)-(B)
Cat 1 – Exchange Line Wideband (WB)	\$830	0%	\$289	\$541
Cat 2.1 – Exchange Line Ethernet	\$-	0%	\$-	\$-
Cat 2.2 – Exchange Line WB- Data Only DSL	\$-	0%	\$-	\$-
Cat 2.3 – WB Line	\$317,879	10%	\$110,859	\$207,020
Cat 3.2 – Toll/SPL	\$317,879	10%	\$110,859	\$207,020
Cat 3.1 – Interexchange CWF	\$2,453,636	79%	\$855,694	\$1,597,942
Cat 4 - Host / Remote CWF	\$-	0%	\$-	\$-
Total	<u>\$3,090,224</u>	<u>100%</u>	<u>\$1,077,701</u>	<u>\$2,012,523</u>

¹³ The balances reported for CWF categorization for 2021 HC Program disbursements are as of December 31, 2019. Additionally, the balances reported for Category 1 do not agree to the Recalculation of Part 64 Balances tables because the Beneficiary reported average balances in Category 1 and ending balances in Part 64.

Cause

The Beneficiary misinterpreted FCC Rules regarding how assets should be valued when transferring from the affiliated companies to the Beneficiary.

Effect

We calculated the monetary effect to the Beneficiary's HC Program filings by adjusting the CAF BLS and HCL algorithms to subtract the overstated amounts from the balances reported in its HC Program filings in the "Recalculation of Part 64 Balances" and "Impact to Cable and Wire Facilities Categorization for 2019" tables above. We have summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	(\$35,115)
HCL	(\$102,463)
CAF ICC	\$0
Total	<u>(\$137,578)</u> ¹⁴

Recommendation

We recommend that the Beneficiary update its asset valuation methodology to comply with FCC Rules.

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

Beneficiary Response

The Beneficiary disagreed with this finding, noting that it appropriately recorded the assets at the lower of the \$3,000,000 purchase price and the \$3,439,979 fair market value, as identified by an independent engineering firm.¹⁵

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

¹⁴The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

¹⁵ The Beneficiary noted that the engineering firm's \$7,395,100 total asset valuation was allocated based on the pro-rata net book value of the relevant assets and resulted in a \$3,439,979 value being associated with the assets allocated to Electra and a \$3,955,121 asset allocated to Texhoma Fiber

Sikich Response

The Beneficiary provided documentation to support it recorded the assets it purchased from Texhoma Fiber at the lower of the purchase price (\$3,000,000) or the fair market value (\$3,439,979), which is consistent with how it records assets purchased from non-affiliated entities. However, because the Beneficiary purchased the assets from an affiliated company, FCC Rules require that it records the assets at the lower of the fair market value, in this case, the \$3,000,000 or the net book cost per the affiliate's books (\$987,477), unless otherwise approved by the FCC. As the Beneficiary did not receive approval to record the asset at the lower of the purchase price or the fair market value, our position regarding this finding remains unchanged.

Finding No. 3, 47 C.F.R. § 64.901 (2020) – Improper Reconciliation between General Ledger and Cost Study for Dash 2 Filing and 47 C.F.R. § 32.12 (a)-(c) (2020) – Improper Reconciliation between General Ledger and Trial Balance for Dash 4 Filing

Condition

We obtained and examined the Beneficiary's general ledger, its trial balance, and its Part 64 Cost Study to determine whether the Beneficiary properly reported expenses for HC Program purposes. Upon review of the Beneficiary's documentation, we determined that the general ledger did not reconcile to the Part 64 Cost Study for the Dash 2 filing, with a variance of \$35,555 affecting the General & Administrative Expense account. Additionally, we determined that the general ledger did not reconcile to the trial balance for the Dash 4 filing, with a variance of \$69,737 for the Circuit Equipment Expense account and a variance of \$33,092 for the Cable Maintenance Expense account.

We summarized the variances between the general ledger and the Part 64 Cost Study for the Dash 2 filing and the variances between the general ledger and the trial balance for the Dash 4 filing in the table below:

Part 64 Adjustments – General & Administrative Expenses			
Dash 2: 12-Month Period Ended March 31, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
General & Administrative Expenses (Account 6720)	\$750,974	\$715,419	\$35,555

Recalculation of Part 64 Balances			
Dash 4: 12-Month Period Ended September 30, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Circuit Equipment Expense (Account 6230)	\$404,498	\$334,761	\$69,737
Cable Maintenance Expense (Account 6410)	\$134,686	\$101,594	\$33,092

Cause

The Beneficiary did not have adequate systems or processes in place to ensure that it properly retained records to enable it to reconcile the balance of accounts between the general ledger, the trial balance, and the Cost Study Part 64. As a result, although the Beneficiary closed the accounts in the trial balance at the end of each month, it did not close the general ledger accounts. In addition, the Beneficiary included the general ledger balances in a different account when preparing the trial balance.¹⁶

Effect

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

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$0
HCL	\$15,862
CAF ICC	\$0
Total	<u>\$15,862</u>

Recommendation

We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary update its systems and processes to ensure the accuracy of data reported to USAC for HC Program purposes. Specifically, the updated processes should ensure the Beneficiary (1) closes its monthly general ledger at month-end, (2) reconciles the general ledger and trial balance on a regular basis, and (3) implements

¹⁶ Per the Beneficiary's response to the Summary of Exceptions, received on March 26, 2024.

robust reconciliation practices to prevent such discrepancies in the future. In particular, the Beneficiary should thoroughly investigate the differences between the general ledger, trial balance, and Part 64 Cost Study.

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

Beneficiary Response

The Beneficiary did not oppose this finding or associated recommendations, stating that this issue occurred because the Beneficiary did not close its general ledger each month and retroactively posted adjustments. The Beneficiary stated that it has implemented procedures to prevent this issue from occurring again.

Sikich Response

As the Beneficiary did not object to this finding, no responses are necessary. Finding No. 3 remains unchanged.

Finding No. 4, C.F.R. § 64.901 (2020) – Inaccurate Allocation Methodology – Payroll Expense

Condition

We obtained and examined the allocation of payroll costs, payroll summary, time study, labor distributions by account, and employee job descriptions from one of the Beneficiary's affiliates, Hilliary Communications, LLC (Hill Com), to determine whether Hill Com accurately calculated the payroll allocated to the Beneficiary and supported the payroll using appropriate documentation, as well as whether the Beneficiary accurately reported payroll expenses for HC Program purposes. We selected a non-statistical sample of payroll expenses for three months—March, June, and December 2019—for testing.

We reviewed Hill Com's time study to determine whether it appropriately supported the allocation factors that it used to allocate payroll expenses to the Beneficiary. Based on this review, we noted that, although the scope of this audit is the 2019 data period, Hill Com completed its latest official time study in 2017, prior to acquiring the Beneficiary, in late 2018 to early 2019. As a result, in an effort to include the employees of the acquired companies in its payroll allocation, Hill Com adjusted the payroll allocation factors based on a review of employee job descriptions and the results of an interview process. However, the Beneficiary did not provide documentation to support how Hill Com calculated the updated 2019 payroll allocation factors for each affiliate and each employee title. Therefore, we determined the

information included in the time study provided is not applicable to substantiate the payroll allocation factors for this audit.

Because the Beneficiary did not provide adequate documentation to demonstrate that it supported its payroll expenses with an accurate payroll allocation methodology, including its basis for its allocation of the payroll expense reported, we cannot verify that the Beneficiary's payroll balances reported for HC Program purposes are accurate for HC Program purposes.

We summarized the differences between the audited payroll expenses, related benefit costs, and payroll taxes and the amounts reported in the Beneficiary's Part 64 Cost Study in the following tables.

Recalculation of Part 64 Balances			
Dash 1: 12-Month Period Ended December 31, 2019			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Network Support Expenses (Account 6110)	\$94,051	\$86,439	\$7,612
General Support Expenses (Account 6120)	\$208,697	\$195,734	\$12,963
COE Transmission Expenses (Account 6230)	\$442,691	\$405,294	\$37,397
CWF Expenses (Account 6410)	\$71,531	\$10,571	\$60,960
Network Operating Expenses (Account 6530)	\$124,610	\$64,491	\$60,119
Executive Expenses (Account 6710)	\$69,125	\$50,558	\$18,567
General Administrative Expenses (Account 6720)	\$583,929	\$513,506	\$70,423

Recalculation of Part 64 Balances			
Dash 2: 12-Month Period Ended March 31, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Network Support Expenses (Account 6110)	\$122,238	\$116,081	\$6,157
General Support Expense (Account 6120)	\$237,001	\$225,167	\$11,834
COE Transmission Expense (Account 6230)	\$474,184	\$438,952	\$35,232
CWF Expense (Account 6410)	\$84,508	\$29,351	\$55,157
Network Operating Expense (Account 6530)	\$166,245	\$107,552	\$58,693
Executive Expense (Account 6710)	\$78,837	\$62,199	\$16,638
General Administrative Expense (Account 6720)	\$750,974	\$674,903	\$76,071

Recalculation of Part 64 Balances			
Dash 4: 12-Month Period September 30, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Network Support Expenses (Account 6110)	\$142,842	\$138,883	\$3,959
General Support Expenses (Account 6120)	\$104,360	\$93,441	\$10,919
COE Transmission Expenses (Account 6230)	\$403,662	\$370,185	\$33,477
CWF Expenses (Account 6410)	\$143,740	\$100,794	\$42,946
Network Operating Expenses (Account 6530)	\$213,249	\$153,286	\$59,963
Executive Expenses (Account 6710)	\$75,150	\$61,889	\$13,261
General Administrative Expenses (Account 6720)	\$667,040	\$574,872	\$92,168

Cause

The Beneficiary did not have a data-driven, cost-causative methodology in place to document the interviews used to determine the adjustments necessary to update the time study to factor in the acquisition of new affiliates.

Effect

As we are unable to determine the actual payroll expense amounts that the Beneficiary should have reported for HC Program purposes, we estimated the relevant monetary effect to the Beneficiary's HC Program filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances identified in the "Recalculation of Part 64 Balances" tables above.

We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$41,888
HCL	\$69,172
CAF ICC	\$0
Total	<u>\$111,060</u>

Recommendation

We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary: (1) develop and implement a payroll allocation method that ensures payroll amounts reported for HC Program purposes are accurate and that factors allocating labor hours and labor dollars to its payroll accounts are supported by appropriate evidence, (2) develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure it has an adequate system in place to calculate its payroll allocations consistent with FCC Rules, and (3) maintain adequate documentation to demonstrate that it records allocations of payroll expenses in the proper amount and to the proper general ledger accounts.

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

Beneficiary Response

The Beneficiary disagreed with this finding, stating that it believes Hill Com reasonably allocated payroll by using a blend of actual timesheets, an interview process, and management judgment for payroll allocations. The Beneficiary used its 2017 time study (as adjusted for changes in employee functions and contributions to the broader operations) as a basis for these allocations. The Beneficiary stated that it has made every effort to reasonably allocate payroll expenses despite experiencing multiple acquisitions and constant change. Further, the Beneficiary stated that, even if it is determined that the time study provided is out of date or that Hill Com should have used a different methodology for allocating payroll, it does not believe it is reasonable to disallow 100 percent of Hill Com's allocated expenses, and that any alternate cost allocation would be more reasonable and provide a sounder basis for an adjustment to Hill Com's allocated expenses.

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

Sikich Response

In Finding No. 4, we discussed the relevant factors necessary to explain why the payroll time study was out of date and not based on cost-causative factors. We cannot perform the work to suggest an alternative payroll allocation methodology because, as auditors, we are not able to audit our own work. The Beneficiary is responsible for preparing and submitting any recommended alternative methodology such as it suggests in its response.

Although the Beneficiary noted that it is not reasonable to disallow 100 percent of Hill Com's allocated expenses, because the payroll allocations were not performed in accordance with FCC rules, and because the Beneficiary did not provide sufficient documentation to support what portion of these expenses would have been allowable per FCC rules, our position regarding this finding has not changed.

Finding No. 5, 47 C.F.R. § 32.2000(g)(2) (2020) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

Condition

We obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated its depreciation expense and the associated accumulated depreciation for HC Program purposes for the 12-month periods ending on December 31, 2019 (Dash 1); March 30, 2020 (Dash 2); and September 30, 2020 (Dash 4).

In accordance with FCC Rules, the Beneficiary must record depreciation expense using average monthly asset balances calculated based on the first and last day of each month and record the associated accumulated depreciation accordingly.¹⁷ However, we determined that the Beneficiary booked monthly depreciation expenses based on prior-year calculations, then adjusted the balances at year end, rather than calculating depreciation expenses on a monthly basis based on average month-end balances.

Based on our recalculation of depreciation expense using average monthly asset balances, we summarized the differences between our recalculated depreciation expenses (and the associated accumulated depreciation) and the amount the Beneficiary reported in the Part 64 Cost Study in the tables below:

¹⁷ 47 C.F.R. § 32.2000(g)(2) (2020).

Recalculation of Part 64 Balances			
Dash 1: 12-Month Period Ended December 31, 2019			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Accumulated Depreciation (Account 3100)	\$4,752,192	\$4,760,406	(\$8,214)
Accumulated Depreciation CWF (Account 2410-3100)	\$4,392,686	\$4,400,901	(\$8,215)
Depreciation Expense – CWF (Account 2410-3100)	\$151,359	\$159,574	(\$8,215)

Recalculation of Part 64 Balances			
Dash 2: 12-Month Period Ended March 31, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Accumulated Depreciation (Account 3100)	\$4,752,192	\$4,754,747	(\$2,555)
Accumulated Depreciation CWF (Account 2410-3100)	\$4,393,026	\$4,395,581	(\$2,555)
Depreciation Expense – CWF (Account 2410-6560)	\$ 151,359	\$153,914	(\$2,555)

Recalculation of Part 64 Balances			
Dash 4: 12-Month Period Ended September 30, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Accumulated Depreciation (Account 3100)	\$4,895,402	\$4,920,960	(\$25,558)
Accumulated Depreciation CWF (Account 2410-3100)	\$4,506,228	\$4,531,786	(\$25,558)
Depreciation Expense – CWF (Account 2410-6560)	\$151,382	\$176,940	(\$25,558)

Cause

The Beneficiary recorded monthly estimates for depreciation and accumulated depreciation expenses based on its prior-year calculations and then made adjustments at year-end during the audit process.¹⁸

Effect

We calculated the monetary effect on the Beneficiary's HC Program filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances identified in the "Recalculation of Part 64 Balances" tables above. We summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	(\$1,093)
HCL	(\$4,203)
CAF ICC	\$0
Total	<u>(\$5,296)</u> ¹⁹

¹⁸ Per the Beneficiary's response to the Summary of Exceptions, received on March 26, 2024.

¹⁹ The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

Recommendation

We recommend that the Beneficiary (1) implement a system that ensures the accuracy of data reported to USAC for HC Program purposes, (2) perform timely reviews to ensure the system is functioning properly, and (3) update its depreciation methodology to comply with FCC Rules.

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-auditprogram-bcap/common-audit-findings-high-cost-program/>.

Beneficiary Response

The Beneficiary agreed with this finding and stated that it has implemented a process for calculating depreciation expense based on average month-end balances, in accordance with FCC Rules.

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

Sikich Response

As the Beneficiary did not object to this finding, no responses are necessary. Finding No. 5 remains unchanged.

Finding No. 6, 47 C.F.R. § 64.901 (2020) – Improper Cost Allocation and 47 C.F.R. § 32.12(a)-(c) (2020) – Part 32 Misclassification of Affiliate Transactions

Condition

We obtained and examined the Beneficiary's general ledger and cost study adjustments documentation—including documentation to support the Beneficiary's lease agreements, balance sheet, and income statements—to determine whether the Beneficiary accurately calculated its affiliate transactions for HC Program purposes for the 12-month periods ending on December 31, 2019 (Dash 1); March 30, 2020 (Dash 2); and September 30, 2020 (Dash 4).

We selected a non-statistical sample of 15 affiliate transactions across Dash 1, Dash 2, and Dash 4, for a total of \$277,844. We reviewed these transactions and noted that the Beneficiary classified two of the samples in incorrect Part 32 accounts using incorrect amounts. Further, for one other sample, the Beneficiary did not provide adequate documentation to support the methodology used to allocate the costs between affiliates.

We have summarized the differences between our recalculated affiliate transaction expenses and the amount the Beneficiary reported in the Part 64 Cost Study in the tables below.

Recalculation of Part 64 Balances			
Dash 1: 12-Month Period Ended December 31, 2019			
Account	As Reported in Part 64 Cost Study (A)P	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
COE Transmission Expense (Account 6230)	\$442,691	\$422,958	\$19,733
CWF Expenses (Account 6410)	\$71,531	\$99,265	(\$27,734)
Network Operating Expenses (Account 6530)	\$124,610	\$121,474	\$3,136
General Administrative Expense (Account 6720)	\$583,929	\$575,929	\$8,000

Recalculation of Part 64 Balances			
Dash 2: 12-Month Period Ended March 31, 2020			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
COE Transmission Expense (Account 6230)	\$474,184	\$454,451	\$19,733
CWF Expenses (Account 6410)	\$84,508	\$112,242	(\$27,734)
Network Operating Expenses (Account 6530)	\$166,245	\$163,109	\$3,136
General Administrative Expense (Account 6720)	\$750,974	\$742,974	\$8,000

Cause

The Beneficiary did not have an adequate system or processes in place to ensure that it properly retained records to support the methodology it used to allocate costs between affiliates. In addition, the Beneficiary did not maintain written documentation of services performed by affiliates to enable it to classify the affiliate transactions appropriately under the correct Part 32 accounts.

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances identified in the "Recalculation of Part 64 Balances" tables above. We summarize the impact of this finding

relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	(\$1,358)
HCL	(\$962)
CAF ICC	\$0
Total	<u>(\$2,320)</u>²⁰

Recommendation

We recommend that the Beneficiary (1) develop and implement policies, procedures, and processes for maintaining cost allocation documentation; (2) implement a system that ensures the accuracy of data reported to USAC for HC Program purposes; and (3) maintain clear and comprehensive documentation to support cost allocations between affiliates, including identifying the allocation methodology, data sources, and any adjustments made.

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 agreed with the Finding.

Sikich Response

As the Beneficiary does not object to this finding, no responses are necessary. Finding No. 6 remains unchanged.

Criteria

Finding	Criteria	Description
No. 1	47 C.F.R. § 32.2000(e) (2020)	<i>(1) The basic property records are that portion of the total property accounting system which preserves the following detailed information:</i> <i>(i) The identity, vintage, location, and original cost of units of property;</i>

²⁰ The HC Program does not pay additional support in the event of a finding resulting in an underpayment

Finding	Criteria	Description
		(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

Finding	Criteria	Description
		<i>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.</i> <i>(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.</i> <i>(6) The company shall prepare and maintain the basic property record as follows:</i> <i>(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.</i> <i>(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.</i> <i>(iii) Promptly process in the basic property records all property changes affecting periods subsequent to initial establishment of the basic property record.</i> <i>(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> <i>(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:</i>

Finding	Criteria	Description
		<i>(A) Provide for the verification of property record units by physical examination.</i> <i>(B) Provide for accurate accounting for retirements.</i> <i>(C) Provide data for use in connection with depreciation studies.</i> <i>(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.</i> <i>(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.</i>
No. 2	47 C.F.R. § 32.27(a), (b) (1-3) (2020)	<i>(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.</i> <i>(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</i>

Finding	Criteria	Description
		<i>recorded at no more than the lower of fair market value and net book cost.</i> <i>(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.</i> <i>(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.</i> <i>(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.</i>
No. 3, No. 4, No. 6	47 C.F.R. § 64.901 (2020)	<i>(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.</i> <i>(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.</i> <i>(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</i>

Finding	Criteria	Description
		<i>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.</i> <i>(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.</i> <i>(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> <i>(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.</i> <i>(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.</i> <i>(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.</i> <i>(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</i>

Finding	Criteria	Description
		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.
No. 3, No. 6	47 C.F.R. § 32.12 (a)-(c) (2020)	(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.
No. 5	47 C.F.R. § 32.2000(g)(2) (2020)	(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

Finding	Criteria	Description
		<i>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.</i> <i>(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.</i> <i>(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.</i>

Sikich CPA LLC

Appendix A: Electra Telephone Company's Response

Finding 1: *Electra disagrees with the recommendation to seek recovery of the amounts identified above. The amounts Sikich recommends be excluded are the entire value of the CWF assets acquired from Townes. These balances tie to the balances booked by Townes and reported in the CPRs. Although work orders and invoices were not provided by Townes, Electra has definitively shown that it paid for these assets, the FCC approved the transaction, and Electra utilized those assets in the provision of universal service to its customers during the audit period. The COE and CWF CPR records provided in response to this audit were those maintained by Townes. The valuation analysis, due diligence performed and purchase price substantiate the value of the assets that have been included in the filings. Electra took all reasonable measures, including legal action, to procure the additional documentation referenced by Sikich but was unable to do so, and therefore utilized the information provided by Townes at the time of the acquisition to estimate the original cost of the assets.*

47 CFR § 32 allows for the use of estimates where actual data is unknown. For example, 47 CFR § 322.000 (b)(2)(ii), which is related to “Telecommunications plant acquired”, states, “The original cost, estimated if not known, of telecommunications plant...shall be charged to the applicable telecommunications plant accounts...” In this case, Electra did not use an estimate, it recorded the actual original cost of the assets as provided by Townes.

47 CFR § 32.2000(f)(2)(iii), which is related to “Property record units”, further states that, “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.” Electra has maintained the continuing property records provided by Townes as a “reasonably accurate estimate” of the cost of the plant.

*47 CFR § 32.2000(f)(4), which specifically addresses “Estimates”, states, “In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or **the pricing of an acquisition for which a continuing property record has not been maintained**, the original cost may be estimated.” (emphasis added). If the estimation of original cost of property may be estimated for an acquisition for which a continuing property record has not been maintained, pursuant to FCC rules, then it follows that the “sufficient detail” that Sikich identified as lacking in Electra’s CPRs cannot be reasonably expected.*

HACT acquired Electra from Townes, did everything in its power, including filing a lawsuit, to capture exactly the information that is the root cause of this finding, and continued to provide universal service to Electra’s customers during the audit period. There should be no question that the assets in question exist, or Electra would not have been able to continue providing service. The recommendations provided by Sikich to provide “sufficient detail” would be

administratively burdensome and extremely costly to Electra, would negatively impact the USF through added costs, and is not required pursuant to FCC rules, which allow for estimation in situations such as Electra's. This finding is inconsistent with FCC rules and should be stricken from the Audit Report.

Further, Electra disagrees with the recommendation that it hire an expert to conduct an inventory of the CWF plant in service to evaluate the original cost of the property or develop estimates if the original cost is unknown. Although Sikich disagrees with the methodology used to value the assets, HACT did hire a highly reputable engineering firm to perform a valuation of the assets prior to its acquisition of Electra, which was used as the basis for the acquisition price. The asset valuation per the engineering firm was \$3,692,900 which is only \$2,125 less than the net property and equipment balance (excluding Plant under construction) of \$3,695,025 shown for 2018 on the 2019 audit report provided in response to a Sikich data request. This is strong evidence that the original cost of the assets recorded on Electra's financial statements, identified in its CPRs, and used in its high cost filings, is a very reasonable estimation of the original cost of the assets acquired.

Finally, it is not reasonable to exclude 100% of the cost of acquired assets especially when the amount included on Electra's books ties to the records provided by Townes, and confirmed through the engineering firm's valuation. If these assets are disallowed, removed from the books, and removed from Telecommunications Plant in Service (effectively, they did not exist), Electra would have had no ability to provide universal service to its customers. Electra disagrees with the proposed disallowance of these assets.

Electra agrees to the recommendation made to develop and implement policies, procedures, and processes to track asset activity and update its CPRs to ensure the accuracy of balances reported for HC Program purposes, as this recommendation relates to assets purchased post-acquisition. These updates can and will be made for all assets purchased post-acquisition.

Finding 2:

Electra disagreed with this finding, noting that the \$3,000,000 purchase price from Texhoma Fiber to Electra was based on a valuation performed by an independent engineering firm and that the total value of the fiber assets owned by Texhoma Fiber, pursuant to their valuation, was \$7,395,100. Specifically, Electra noted that the \$7,395,100 cost was allocated based on the pro-rata net book value of the relevant assets and resulted in \$3,439,979 being allocated to Electra and \$3,955,121 allocated to Texhoma Fiber. As a result, Electra acquired the fiber assets from Texhoma Fiber at a bargain purchase price that was \$439,979 less than the fair market value and booked the assets accordingly.

Finding 3: *Electra does not oppose this finding and recommendation. This issue occurred because Electra did not close its general ledger each month and retroactively posted adjustments. Electra has implemented procedures to prevent this issue from occurring.*

Finding 4: *Electra disagrees with this finding. Hilliary Communications' employees perform all operating functions for Electra and other Hilliary Communications affiliates and, therefore, allocates payroll expense to all affiliates. Hilliary Communications has a detailed process for identifying allocations between affiliates, which includes preparing a formal time study every 3 years. HACT has made several acquisitions over the last six years while maintaining approximately the same number of employees, although also experiencing churn, and has reasonably allocated payroll using a blend of actual timesheets, an interview process, and management judgement for payroll allocations. Hilliary Communications maintains, monthly, a detailed spreadsheet showing the allocation percentage used among affiliates and between expense accounts.*

Electra provided a written methodology for payroll allocations, the 2017 time study, 2017 timesheets, job descriptions, and a "billout summary" reflecting percentages used to allocate employee payroll in 2019. The basis for these allocations was the 2017 time study as adjusted for changes in employee functions and contributions to the broader operations, which included more companies than in 2017. For most employees, only 10%-20% of payroll is assigned to Electra although there are a few employees who had greater or lesser payroll allocated. Electra also provided a detailed explanation of its payroll allocation process, using one month as an example, on an extensive call with the Sikich auditors in June 2023. Nothing in this finding reflects the explanations provided by Electra, either in writing or verbally.

Electra made every effort to reasonably allocate payroll expense during a period of multiple acquisitions and constant change. Even if the time study is determined to be out of date or that a different methodology for allocating payroll should have been used, it is unreasonable to exclude all allocated payroll expense. The Hilliary Communications employees that are the basis of the allocation are necessary to operate the company and provide quality service to customers. If it is ultimately determined that Hilliary Communications' allocations of payroll expense are unreasonable, then an alternate allocation methodology should be utilized rather than eliminating all payroll allocations. For example, it may be reasonable to perform an alternate allocation based on customer or line counts, or plant investment, for all Hilliary Communications affiliates. 47 CFR § 64.901 (b) provides guidelines, but not specific procedures, for the allocation of costs between regulated and nonregulated activities and is the appropriate guideline for the allocation of costs between Hilliary Communications and Electra. 47 CFR § 64.901 (b)(3) first calls for the direct assignment of costs whenever possible, and Hilliary Communications direct assigns costs to Electra when possible. Common costs that cannot be

directly assigned are then allocated between regulated and nonregulated activities first based on a direct analysis, then based upon an indirect, cost-causative linkage to another cost category, and finally utilizing a general allocator. Again, there are no specific methodologies provided in 47 CFR § 64.901 (b)(3), just general guidance. Hilliary Communications utilizes a combination of these methodologies in performing its cost allocations, which is memorialized in its cost allocation workpaper that was provided and explained to Sikich. While Electra understands that there is disagreement as to whether its cost allocations procedures are “cost-causative” and “data driven,” it is completely unreasonable to disallow 100% of Hilliary Communications’ allocated expenses. Any alternate cost allocation would be more reasonable and provide a sounder basis for an adjustment to Hilliary Communications allocated expenses.

Finding 5: *Electra does not object to this finding and has implemented a process to calculate depreciation expense based on average month-end balances.*

Finding 6: The Beneficiary agreed with the finding.

Summary of the High Cost Support Mechanism Beneficiary Audit Reports Released: August 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment B Southeastern Indiana Rural Telephone Cooperative, Inc.	5	No significant findings.	\$7,856,394	\$62,488	\$62,488	Partial
Attachment C Northeast Rural Services, Inc.	2	RBE Order (DA 14-98) – Locations Did Not Meet Public Interest Obligations – The Beneficiary did not deploy broadband or failed to comply with location eligibility requirements for four of the 19 sampled units for SAC 436115 and four of the 16 sampled units for SAC 436144.	\$107,169	See Note 1	See Note 1	Partial
Attachment D Horry Telephone Cooperative, Inc.	3	No significant findings.	\$9,907,710	\$73,580	\$73,580	N
Attachment E South Park Telephone Company	1	No significant findings.	\$103,098	(\$204)	\$0	N

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment F Nehalem Telecommunications, Inc.	9	No significant findings.	\$548,790	(\$84)	\$0	N
Total	20		\$18,523,161	\$135,780	\$136,068	

Note 1 – The monetary effect was not quantified and instead the auditor’s recommendation was to continue withholding all the Beneficiary’s support payments. USAC management agreed to withhold all payments until directed to do otherwise by the FCC.

INFO Item: Audit Released August 2025
Attachment B
10/27/2025

Attachment B

HC2024LR014



Southeastern Indiana Rural Telephone Cooperative, Inc.

Audit ID: HC2024LR014

Universal Service Administrative Company – High Cost Program

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

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

As of Date: July 14, 2025

KPMG LLP
8350 Broad Street #900
McLean, VA 22102

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

July 14, 2025

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the limited review performance audit objectives relative to Southeastern Indiana Rural Telephone Cooperative, Inc. (“SEI Rural” or “Beneficiary”) Study Area Code (“SAC”) No. 320819 for disbursements made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2022. Our work was performed from March 14, 2024 to July 14, 2025.

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

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

The objective of this limited review performance audit was to evaluate the Beneficiary’s compliance with select Federal Communications Commission’s (“FCC”) rules and regulations and orders related to the High Cost Program, including those set forth in 47 C.F.R. (“Code of Federal Regulations”) Parts 32, 36, 51, 54, 64 and 69, (collectively “FCC Rules”) relative to disbursements, of \$7,856,394, made from the High Cost Program during the twelve-month period ended December 31, 2022.

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

As our report further describes, KPMG identified five audit findings as discussed in the Audit Results and Recovery Action section. For the purpose of this report, and in accordance with FCC reporting practices, a Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period.

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 LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



In addition, we also noted an Other Matter that is not significant within the context of the audit objective and does not necessarily constitute a rule violation but warrants the Beneficiary and USAC Management's attention. We reported this Other Matter to the Beneficiary's management in a separate letter dated July 14, 2025.

This report is intended solely for the use of the USAC, 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 and the FCC.

Sincerely,

KPMG LLP

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect Overpayment (Underpayment) ¹				Recommended Recovery ²
	HCL	CAF BLS	CAF ICC ³	Total	
<u>HC2024LR014-F01: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation</u> – The Beneficiary utilized ending monthly asset balances rather than average monthly asset balances to calculate Depreciation Expense and Accumulated Depreciation as prescribed by FCC Rules.	\$4,013	\$2,722	N/A	\$6,735	\$6,735
<u>HC2024LR014-F02: 47 C.F.R. § 54.320(b) – Lack of Supporting Documentation: Assets</u> – The Beneficiary was unable to provide sufficient and appropriate supporting documentation for 12 asset transactions.	\$43,479	\$12,405	N/A	\$55,884	\$55,884
<u>HC2024LR014-F03: 47 C.F.R. § 54.903(a)(4) – Inaccurate Revenues</u> – The Beneficiary's annual SLC revenue was overstated on the Form 509.	N/A	(\$2,005)	N/A	(\$2,005)	\$0

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.

² The HC Program does not pay additional support in the event of a finding resulting in an underpayment, however the HC Program will net findings resulting in underpayment with findings resulting in an overpayment.

³ The CAF ICC program year provides for the disbursement of funds on a July to June basis, with true-up payments disbursed two years after the program year. The true-up payment for the 2019 – 2020 CAF ICC program year was disbursed from July 2021 to June 2022 (based on data submitted in June 2021). The audit period includes an examination of disbursements paid in the calendar year 2021; therefore, the monetary effect of this Finding accounts for the last six months of the true-up payment that occurred from January to June 2022 which corresponds to the 2019–2020 program year and the first six months of the true-up payment that occurred from July to December 2021 corresponds to the 2020 – 2021 program year.

Audit Results	Monetary Effect Overpayment (Underpayment) ¹				Recommended Recovery ²
	HCL	CAF BLS	CAF ICC ³	Total	
<u>HC2024LR014-F04: 47 C.F.R. § 32.2(a),(b) – Misclassified Expenses</u> – The Beneficiary did not report operating expenses in the appropriate Part 32 accounts.	(\$483)	(\$927)	N/A	(\$1,410)	\$0
<u>HC2024LR014-F05: 47 C.F.R. § 32.27– Improper Affiliate Transactions</u> – The Beneficiary collected inaccurate rent revenue from a subsidiary.	\$2,291	\$993	N/A	\$3,284	\$3,284
Total Net Monetary Effect	\$49,300	\$13,188	N/A	\$62,488	\$65,903

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 320819, 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.

	HCL (A)	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	\$4,013	\$2,722	N/A	\$6,735	
Finding #2	\$43,479	\$12,405	N/A	\$55,884	
Finding #3	N/A	(\$2,005)	N/A	(\$2,005)	
Finding #4	(\$483)	(\$927)	N/A	(\$1,410)	
Finding #5	\$2,291	\$993	N/A	\$3,284	
Mechanism Total	<u>\$49,300</u>	<u>\$13,188</u>	<u>N/A</u>	<u>\$62,488</u>	

BACKGROUND, OBJECTIVE, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

The 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. High Cost Loop (“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. Safety Valve Support (“SVS”): SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. Connect America Fund Inter-carrier Compensation (“CAF ICC”): CAF ICC support is available to Incumbent Local Exchange Carriers (“ILEC”) to recover revenue that is not covered by the Access Recovery Charge (“ARC”) to the end user.
3. Connect America Fund Broadband Loop Support (“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 Subscriber Line Charge (“SLC”) caps do not permit them to recover their common line revenue requirements.

Beneficiary Overview

Southeastern Indiana Rural Telephone Cooperative, Inc. (SAC No. 320819), located in Dillsboro, Indiana, serves over 3,000 customers. The Beneficiary provides telephone and internet services to individuals and businesses located in southeastern Indiana. SEI Rural also provides access services to interexchange carriers who sell long distance telephone service to their subscribers. The Beneficiary wholly owns its subsidiary SEI Data, Inc. SEI Data, Inc. operates as Competitive Local Exchange Carrier (“CLEC”) in southeastern Indiana and provides satellite internet services.

The following chart summarizes the High Cost program support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2022 by High Cost fund type:

High Cost Support	Disbursement Amount
CAF BLS	\$4,575,996
CAF ICC	\$299,706
HCL	\$2,980,692
Total	\$7,856,394

Source: USAC

The Beneficiary received High Cost support during the twelve-month period ended December 31, 2022, based on the following annual financial and operational data submitted by the Beneficiary to the National Exchange Carrier Associations (“NECA”) and USAC:

- 2021-1 HCL Form, based on the twelve-month period ended December 31, 2020
- 2021 FCC Form 509, based on calendar year 2020 data, and
- 2021 CAF ICC Form, based on program year 2020 data

OBJECTIVE

The audit objective of this limited review performance audit was to evaluate the Beneficiary’s compliance with select FCC rules and regulations and orders related to the High Cost Program, including those set forth in 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 \$7,856,394, made from the High Cost Program during the twelve-month period ended December 31, 2022.

SCOPE

The scope of our work relates to the High Cost Program forms or other correspondence filed by the Beneficiary for the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022, 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, 2022 related to SAC noted in the Beneficiary overview section above.⁴

Our performance audit as defined by the FCC for High Cost limited review performance audits includes the following areas:⁵

1. Materiality Analysis
2. Reconciliation
3. Assets
4. Expenses
5. High Cost Program filings
6. Central Office Equipment (“COE”) Categorization
7. Cable and Wire Facilities (“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

⁴ 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.

⁵ If exceptions (instances of material noncompliance with the FCC Rules) were noted in areas other than the in-scope areas as a result of our testing procedures and the execution of our performance audit, we identified those findings in the ‘Results’ section of the report.

PROCEDURES

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

1. Materiality Analysis

For applicable High Cost Program forms, we obtained the forms submitted for the period ended December 31, 2020, 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 2020 financial statements and reconciled to the General Ledger ("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")⁶ methodology to select 30 asset samples from material accounts identified in the relevant High Cost Program forms. We made asset selections from Continuing Property Record ("CPR") details, and material accounts included COE and C&WF accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

4. Expenses

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

5. High Cost Program filings

For the relevant High Cost Program forms (HCL, CAF BLS and CAF ICC) completeness of reported accounts 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.

⁵ Monetary unit sampling ("MUS") is a random-based sampling approach.

8. Overheads

KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2020. 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 and it allocates its total net income to the cooperative's members. As a cooperative entity, SEI Rural's income tax expense and other relevant income tax amounts are not reported for the USF support purposes. KPMG performed an evaluation of the applicable High Cost 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 rent revenues, service charges, and facility access charges related to telecommunication circuits that occurred during 2020. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the 6 samples selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2 and categorized in the appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

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

13. Revenue Requirement

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

RESULTS

KPMG’s performance audit results include the following findings, recommendations and Beneficiary responses regarding the Beneficiary’s compliance with FCC requirements. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

HC2024LR014-F01: 47 C.F.R. § 32.2000(g)(2)(iii)– Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary utilized ending monthly asset balances rather than average monthly asset balances to calculate Depreciation Expense and Accumulated Depreciation as prescribed by FCC Rules⁷ for the period of January 1, 2020 to December 31, 2020.

The differences noted in the Depreciation Expense and Accumulated Depreciation balances for the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509 are as follows:

Account Description	Account Balance Reported to NECA	Balance Supported by Testing	Variance for the 12 months ended December 31, 2020
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	\$5,025,876	\$5,025,524	\$352
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	\$20,922,855	\$20,913,887	\$8,968
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	\$434,065	\$433,713	\$352
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	\$2,558,308	\$2,549,340	\$8,968

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 adding or subtracting the variance(s) noted in the condition above to or from the respective accounts or line items on the High Cost forms reported by the Beneficiary. The resulting change in disbursements was then compared to the original disbursements made from the High Cost Program for the twelve-month period ended December 31, 2022. This resulted in an over-payment of \$6,735 as summarized below:

⁷ See 47 C.F.R. § 32.2000(g)(2)(iii); 47 C.F.R. § 32.3100; 47 C.F.R. § 32.6560 (2020) in the criteria section of the report.

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Support Type	Monetary Effect & Recommended Recovery
HCL	\$4,013
CAF BLS	\$2,722
CAF ICC	N/A
Total	\$6,735

RECOMMENDATION

KPMG recommends the USAC Program recovers the amount noted in the Effect Section above.

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 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. The company has updated their depreciation computation methodology to compute expenses using the average monthly balances.

HC2024LR014-F02: 47 C.F.R. § 54.320(b) – Lack of Supporting Documentation: Assets

CONDITION

KPMG utilized a sampling tool to select a statistically valid monetary unit sample of 30 random asset transactions to test and virtually inspected 8 judgmental samples of COE assets, for a total of 38 sample asset transactions, to determine whether the Beneficiary reported its asset account balances accurately for High Cost program purposes. The Beneficiary was unable to provide sufficient and appropriate supporting documentation, outside of a high level work order summary, for 12 out of the total 38 sampled asset transactions to validate CPR asset balances as required by FCC Rules⁸.

KPMG summarized the value of the 12 unsupported asset transactions and relevant Accumulated Depreciation and Depreciation Expense for the twelve-month period ended December 31, 2020 below:

Account Description	Unsupported Balance
Account 2230: Central Office Transmission Equipment	(\$8,333)
Account 2410: Cable & Wire Facilities	(\$529,052)
Account 3100 (2230): Accumulated Depreciation - Central Office Transmission Equipment	(\$5,000)
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	(\$165,780)
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	(\$833)
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	(\$29,096)

⁸ See 47 C.F.R. § 54.320(b)(2020) in the criteria section of the report.

Additionally, for 3 of the 38 asset samples, the Beneficiary was unable to provide third party invoice support, but through alternative procedures including CPR details, staking sheets, and G/L detail, we were able to validate the existence of the assets and validate the assets were fully depreciated for the audit period. Therefore, no further expenses should have been added on the High Cost forms as an increase in expenses for depreciation.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper retention of all records required to demonstrate to auditors that the support received was consistent with the High Cost program as prescribed by FCC rules. The Beneficiary noted it did not maintain sufficient supporting documentation for some of its assets beyond 7 years as its policy was to retain documentation only for 7 years for tax purposes⁹.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variance(s) noted in the condition above to or from the respective accounts or line items on the High Cost forms reported by the Beneficiary. The resulting change in disbursements was then compared to the original disbursements made from the High Cost Program for the twelve-month period ended December 31, 2022. This resulted in an over-payment of \$55,884 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	\$43,479
CAF BLS	\$12,405
CAF ICC	N/A
Total	\$55,884

RECOMMENDATION

KPMG recommends the USAC Program recovers the amount noted in the Effect Section above.

KPMG recommends the Beneficiary should enhance and implement policies and procedures relevant to documentation and data retention governing asset records to ensure compliance with FCC Rules and Orders and to support USF filings. 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/](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 they were unable to locate and provide the requested invoices. They believe however, that given the overall state of their accounting records and information that sufficient documentation was provided (copy of cancelled checks, accounting system invoice screenshots, etc...) to validate the assets in question. However given the totality of the audit process, the beneficiary acknowledges the finding and will ensure compliance in the future. Since the time period examined in the Audit, beneficiary has augmented their Accounting and Finance team – including hiring a Director of Finance, to help improve all accounting processes, including record retention.

⁹ The Beneficiary was unaware of the FCC requirement to retain documentation for 10 years from receipt of funding as noted in the Criteria.

KPMG RESPONSE

KPMG notes that for the assets sampled and tested, we were only able to obtain internal Work Order detail to verify the Beneficiary recorded a journal entry and check copies issued for payment in the amount selected for testing. However, external party invoices or equivalent supporting documentation to verify the asset descriptions, quantity purchased or other details to validate the transactions were recorded to the correct Part 32 account could not be obtained. Therefore, we did not have sufficient evidence to verify that the assets purchased were in accordance with High Cost program rules.

HC2024LR014-F03: 47 C.F.R. § 54.903(a)(4) – Inaccurate Revenues

CONDITION

KPMG obtained and examined the Beneficiary's billing records and the Form 509 to determine whether the Beneficiary reported its revenues accurately for High Cost program purposes. We noted the Beneficiary's total annual SLC revenues were overstated on the Form 509¹⁰.

SLC Revenues Per Form 509	SLC Revenues Per Beneficiary's Billing Register	Variance for the 12 months ended December 31, 2020
\$280,368	\$278,363	\$2,005

CAUSE

The Beneficiary did not have adequate processes in place governing the proper review and reporting of SLC revenue amounts as prescribed by FCC rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variance(s) noted in the condition above to or from the respective accounts or line items on the High Cost forms reported by the Beneficiary. The resulting change in disbursements was then compared to the original disbursements made from the High Cost Program for the twelve-month period ended December 31, 2022. This resulted in an under-payment of \$2,005 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	N/A
CAF BLS	(\$2,005)
CAF ICC	N/A
Total	(\$2,005)

RECOMMENDATION

KPMG recommends the Beneficiary should enhance controls and procedures related to preparation, review, and reporting of revenues. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/>.

¹⁰ See 47 C.F.R. § 54.903(a)(4)(2020) in the criteria of the report.

BENEFICIARY RESPONSE

The beneficiary acknowledges this finding. The reporting process for FCC Form 509 has been updated so that reported amounts match the GL balances for the respective periods.

HC2024LR014-F04: 47 C.F.R. § 32.2(a),(b) – Misclassified Expenses

CONDITION

KPMG examined the Beneficiary's G/L and Part 64 Cost Study and Cost Allocation methodology to determine whether the Beneficiary reported its balances accurately for High Cost program purposes. The Beneficiary did not deduct rent revenues from operating expenses for rented central office transmission equipment from the appropriate Part 32 account as a Part 64 adjustment prior to input of data into the 2021-1 HCL Form and Form 509. The Beneficiary reduced Account 6120 - General Support Expenses instead of Account 6230 - Central Office Transmission Expense¹¹, as summarized below:

Expense Account	Incorrect Adjustment of Expense Amount (\$)	Correct Adjustment of Expense Amount (\$)
6120 – General Support Expenses	(\$4,800)	\$0
6230 – Central Office Transmission Expense	\$0	(\$4,800)
Total	(\$4,800)	(\$4,800)

CAUSE

The preparation, review, and approval processes governing the adjusting and reporting of expense amounts were not sufficient to detect the adjustment of expense amounts based on incorrect Part 32 reporting base.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variance(s) noted in the condition above to or from the respective accounts or line items on the High Cost forms reported by the Beneficiary. The resulting change in disbursements was then compared to the original disbursements made from the High Cost Program for the twelve-month period ended December 31, 2022. This resulted in an under-payment of \$1,410 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	(\$483)
CAF BLS	(\$927)
CAF ICC	N/A
Total	(\$1,410)

RECOMMENDATION

KPMG recommends the Beneficiary enhance the process of adjusting and reporting of Part 64 expense account balances for USF purposes 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/>.

¹¹ See 47 C.F.R. § 32.5200(a)(2020); 47 C.F.R. § 32.6232(2020) in the criteria section of the report.

BENEFICIARY RESPONSE

The beneficiary acknowledges this finding and has corrected their process accordingly.

HC2024LR014-F05: 47 C.F.R. § 32.27 – Improper Affiliate Transactions

CONDITION

KPMG selected and tested a judgmental sample of 6 affiliate transactions to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. We identified that the Beneficiary collected inaccurate equipment rental revenue from a subsidiary. The Beneficiary utilized 2009 data to calculate the amount of rent charged and collected related to use of central office transmission equipment by its subsidiary, which resulted in rent revenue that was less than higher of fair market value and fully distributed cost.

KPMG recalculated the amount of the equipment rental revenue based on 2020 data, considering higher of fair market value and fully distributed cost to deduct from Account 6230 – Central Office Transmission Equipment expense for the High Cost filings. The difference between the amount of revenue that was collected and the amount of revenue that should have been collected from the subsidiary is summarized below:

Equipment Rental Revenue Based on 2009 Data	Equipment Rental Revenue Based on 2020 Data	Variance for the 12 months ended December 31, 2020
\$4,800	\$11,925	\$7,125

Additionally, the Beneficiary utilized historical data from 2009 and 2010 for charges to affiliates for Billing and Collections services provided. KPMG was able to perform alternative procedures to validate Billing and Collections rates charged were the higher of fair market value and fully distributed cost for 2020 aligned with rates charged from SE Indiana to their subsidiary. Therefore, no further revenue should have been deducted on the High Cost forms as a reduction in expenses for revenues collected.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation and reporting of transactions with affiliates as prescribed by FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variance(s) noted in the condition above to or from the respective accounts or line items on the High Cost forms reported by the Beneficiary. The resulting change in disbursements was then compared to the original disbursements made from the High Cost Program for the twelve-month period ended December 31, 2022. This resulted in an over-payment of \$3,284 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	\$2,291
CAF BLS	\$993
CAF ICC	N/A
Total	\$3,284

RECOMMENDATION

KPMG recommends the USAC Program recovers the amount noted in the Effect Section above.

KPMG recommends the Beneficiary enhance the calculation and reporting of transactions with affiliates for USF purposes 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 and has updated their affiliate transaction computations accordingly.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(iii) (2020)	"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 (2020)	"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 (2020)	"Depreciation and amortization expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565."
#2	47 C.F.R. § 54.320(b) (2020)	"(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."
#3	47 C.F.R. § 54.903(a)(4) (2020)	"(a) To be eligible for CAF BLS, each rate-of-return carrier shall make the following filings with the Administrator. (4) Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the

Finding	Criteria	Description
		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."
#4	47 C.F.R. § 32.2(a),(b) (2020)	"(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. (b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers."
#4	47 C.F.R. § 32.5200(a) (2020)	"(a) Rental or subrental to others of telecommunications plant furnished apart from telecommunications services rendered by the company (this revenue includes taxes when borne by the lessee). It includes revenue from the rent of such items as space in conduit, pole line space for attachments, and any allowance for return on property used in joint operations and shared facilities agreements. The expense of maintaining and operating the rented property, including depreciation and insurance, shall be included in the appropriate operating expense accounts. Taxes applicable to the rented property shall be included by the owner of the rented property in appropriate tax accounts. When land or buildings are rented on an incidental basis for non-telecommunications use, the rental and expenses are included in Account 7300, Nonoperating income and expense."
#4	47 C.F.R. § 32.6232 (2020)	"Circuit equipment expense. (a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical. (b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment. (c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit

Finding	Criteria	Description
		equipment."
#5	47 C.F.R. § 32.27 (2020)	"(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 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

Finding	Criteria	Description
		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. 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. (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 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

Finding	Criteria	Description
		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."

CONCLUSION

KPMG's evaluation of the Beneficiary's compliance with select FCC rules and regulations and orders related to the High Cost Program, including those set forth in 47 C.F.R. § 32, 36, 51, 54, 64 and 69 relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022 identified five findings: Inaccurate Depreciation Calculation, Lack of Asset Supporting Documentation, Inaccurate Revenues, Misclassified Expenses, and Improper Allocation of Overhead Costs. KPMG recommends that the Beneficiary enhance the preparation, review, and approval processes governing the calculation of depreciation; documentation and data retention of asset records; enhance controls and procedures related to preparation, review, and reporting of revenues; enhance the process of adjusting and reporting of expense account balances; and evaluate and update the methodology used for clearing overhead costs via appropriate methodology for USF purposes to ensure compliance with FCC Rules and Orders.

**** This concludes the audit report.****

INFO Item: Audit Released August 2025
Attachment C
10/27/2025

Attachment C

HC2022MO039

Northeast Rural Services, Inc.

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

USAC Audit No. HC2022MO039

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EXECUTIVE SUMMARY

March 18, 2025

Connie Porter, Controller
Northeast Rural Services, Inc
27039 S 4440 Road
Vinita, OK 74301

Dear Ms. Porter:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Northeast Rural Services, Inc. (Beneficiary), for the study area codes (SAC) and disbursements described in the Purpose, Scope and Procedures section, for the periods July 1, 2015 through January 31, 2025 for Connect America Fund (CAF) Rural Broadband Experiments (RBE) support, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. §§ 54.309-310, as well as other program requirements (collectively, FCC Rules). The Beneficiary is responsible for complying with FCC rules. AAD is responsible for determining the Beneficiary's compliance with FCC Rules.

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 the 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 defined deployment obligations under the program and 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,

A handwritten signature in blue ink, reading "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
Finding #1: RBE Order (DA 14-98) - Locations Did Not Meet Public Interest Obligations. The Beneficiary did not deploy broadband or failed to comply with location eligibility requirements for four units of the 19 sampled units for SAC 436115 and for four units of the 16 sampled units for SAC 436144.	Continue withholding of all support payments.
Finding #2: FCC DA 16-1363 (2016) – Inaccurate Location Information Reported on the HUBB. The Beneficiary reported incorrect addresses for six units in the HUBB.	\$0

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SACs 436115, 436144 and 436148. HC Program will continue withholding support from SACs 436115 and 436144 for the High Cost Program until directed by the FCC to restore.

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.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Beneficiary complied with FCC Rules and to assess the accuracy of the underlying High Cost Universal Broadband (HUBB) portal submission data used to confirm deployment obligations and conduct a site visit to validate performance obligations for CAF RBE support.

SCOPE

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

State	SAC	RBE Support as of January 31, 2025	No. of Locations Reported and Certified in the HUBB as of 3/1/2022 ¹	No. of Units Reported and Certified in the HUBB as of 3/1/2022 ²	No. of Units Tested
Oklahoma	436115	\$61,722	23	23	19
Oklahoma	436144	\$7,006	32	32	16
Oklahoma	436148	\$38,441	19	19	15
Total		\$107,169	74	74	50

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Deployment Milestone Requirements

AAD compared the number of units the Beneficiary reported and certified in the High Cost Universal Broadband (HUBB) portal at the last milestone to determine whether the Beneficiary satisfied the requirements based on the FCC's support authorization letter.³

¹ The Beneficiary was required to report in the HUBB deployments to all required locations by March 1, 2020 for SAC 4361115, and March 1, 2021 for SACs 436144 and 436148.

² *Id.*

³ *Wireline Competition Bureau Announces Rural Broadband Experiments Support for Provisionally Selected Bids Ready to be Authorized*, Public Notice, WC Docket 10-90, 14-259, 31 FCC Rcd 5748 (2016) (authorizing Northeast Rural Services to receive RBE support for the following SACs, 436144, 436145, 436146, 436147, 436148); *Rural Broadband Experiment*

B. Documentation Review, Site Visit, and Sample Selection – Use of Specialist

AAD contracted Econometrica Inc., a company that provides economic and analytical services, to select a statistically valid sample of locations for testing and to extrapolate the results of the locations tested to the population not tested.

AAD also contracted the services of a professional engineering firm, Elite Systems, LLC, to examine evidence of the Beneficiary's broadband deployments, the equipment used to provide the minimum upload and download speeds and latency, testing the performance obligations, validating addresses and geographic coordinates, and other FCC requirements for the locations selected for testing.

C. Location Eligibility, Address and Coordinates

AAD examined the locations⁴ the Beneficiary reported and certified in the HUBB portal to determine whether the locations qualify as eligible for support by testing the accuracy of the geocodes for each sampled location. AAD used mapping software and other data analysis techniques to determine whether those geocodes existed within the carrier's eligible census block. In addition, AAD assessed whether the locations meet the FCC deployment criteria, and that service can be provided within 10 business days upon request.⁵ AAD also assessed whether the Beneficiary accurately reported and certified eligible locations in the HUBB portal by examining the correct count of housing units, unique latitude and longitude coordinates, and the appearance of the reported structures.⁶

D. Minimum Deployment Requirements

AAD examined the locations the Beneficiary reported and certified in the HUBB portal to determine whether the Beneficiary deployed requisite services to meet the minimum deployment obligations. Specifically, we confirmed whether the location was in an eligible census block, meeting or exceeding the minimum public interest obligations for offering broadband service (at least specific Mbps downstream/Mbps upstream per line of credit) with latency suitable for real-time applications (including

Support Authorized for Five Winning Bids for First Step Internet, LLC and Northeast Rural Services, Inc., WC Docket Nos. 10-90 and 14-259, Public Notice, 30 FCC Rcd 9886 (WCB 2015) (authorizing Northeast Rural Services to receive RBE support for the following SACs: 436112, 436113, 436114, 436115). See *Guidance Public Notice*, 31 FCC Rcd at 12908 ("For administrative efficiency, we now align the timing of RBE recipients' annual reports with the annual reporting requirements for Phase II recipients of model-based support and rate-of-return carriers and direct RBE recipients to submit their three- and five-year milestone reporting and certifications to the HUBB"). 47 C.F.R. §§ 54.310(c) (setting forth annual reporting requirements for CAF Phase II support recipients).

⁴ A location is one pair of geographic coordinates. A location may contain multiple units such as an apartment building, and in such cases, each unit in an apartment building would count as a location.

⁵ *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations*, 31 FCC Rcd 12900 (15), note 11 (2016) (Guidance Public Notice).

⁶ *Id.* at page 6 – Do's and Don'ts.

VoIP), usage capacity that is reasonably comparable to offerings in urban areas and assessing rates that are reasonably comparable to offerings in urban areas.⁷

E. Site Visits

AAD performed a physical inspection of each sampled location, including corroborating the geocodes of the physical location service were operational or could become operational within 10 business days and conducting the engineering tests to measure the download speed, upload speed, and latency and determine whether the results met the performance requirements.

F. Performance Measures Module Comparison

AAD examined the results of the physical site visits and, as applicable, compared them to results the Beneficiary reported and certified in the High Cost Performance Measures Module (PMM) to determine if a discrepancy exists.

⁷ See *Rural Broadband Experiments Order*, 29 FCC Rcd at 8779-80, para. 26 (stating that highest bidding tier requires speeds of 100/25 Mbps upstream/downstream, latency no greater than 100 milliseconds, and at a price that meets reasonably comparability benchmarks); 47 C.F.R. § 54.309(a)(a) (requiring all high-cost support recipients to certify compliance with reasonably comparable rates requirements); see also *supra* note 3 (setting forth information about the RBE program's final milestone).

DETAILED AUDIT FINDINGS

FINDING #1: RBE Order (DA 14-98) – Locations Did Not Meet Public Interest Obligations

CONDITION

AAD selected a statistically valid sample of 50 units (50 locations)⁸ that the Beneficiary reported and certified in the HUBB portal for the RBE support at the 100 percent milestone and, using an independent engineering firm, performed physical inspections to determine whether the locations were eligible for RBE support, the related geocodes were reported and certified accurately in the HUBB portal, and the locations met the FCC requirements for public interest obligations for offering broadband service (at least 100 Mbps downstream/25 Mbps upstream) with latency suitable for real-time applications (less than 100 milliseconds).⁹ Beneficiary did not deploy broadband, or deployed broadband to locations without eligible structure that met the qualifying location reporting definition by FCC,¹⁰ as detailed below:

SAC	Sample Size in Units	Failure Description ¹¹	No. of Units from Statistically Valid Sample
436115	19	No broadband service	1
		No eligible structure	4
Total 436115			5
Less: Overlapping units in multiple failure categories			1
Net Total Failures 436115			4
436144	16	No eligible structure	3
		Inadequate download speed	1
Total Failures 436144			4

The Beneficiary stated that it filed a waiver with the FCC to reduce the number of required locations.¹² Until the FCC opines on the waiver request, AAD must base the testing and results on the original number of locations approved by the FCC. Further, because the locations in question did not have broadband service or

⁸ AAD refers to a total of units/locations samples at a summary level; however, AAD contracted an independent statistician to select a statistically valid sample of units/locations for each SAC under the scope of this audit. See Scope section, *supra*.

⁹ *Rural Broadband Experiment Support Authorized for Five Winning Bids For ... Northeast Rural Services, Inc.*, DA 15-1003 (2015), *Rural Broadband Experiment Support Authorized for Bids Submitted by ... For ... Northeast Rural Services, Inc.*, DA 16-1026 (2016) and *Connect America Fund, ETC Annual Reports and Certifications*, WC Docket No. 10-90, 14-58, Report and Order & Notice of Proposed Rulemaking, FCC 14-98, 29 FCC Rcd 8769, para. 74 (2014).

¹⁰ *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations*, 31 FCC Rcd 12900 (15), page 6 – Do's and Don'ts (2016).

¹¹ A unit may contain multiple types of failures, AAD excluded overlapping of failures to avoid double counting errors.

¹² Northeast Rural Services Inc.'s Petition for Waiver, WC Docket No. 10-90 et al. (filed Apr. 5, 2023).

an eligible structure as required by FCC Rules, AAD concludes that the Beneficiary certified locations in the HUBB that did not meet the public interest obligation for RBE support.

CAUSE

The Beneficiary submitted locations to the HUBB but failed to ensure the HUBB data was complete and accurate.

EFFECT

AAD extrapolated the failures in the statistically valid sample (to the total number of units reported for the SAC), which resulted in an error rate as detailed below.¹³

SAC	Net Failures	Failure Rate ¹⁴ (A)	No Units Reported and Certified in the HUBB as of 3/1/2022 (B)	Obligation Requirement (C)	Extrapolation of Units with Errors (D) = (A)*(B)	Units in Excess /(Shortfall) of Obligation (E) = (B)-(C)-(D)
436115	4	17.39%	23 ¹⁵	20	4	(1)
436144	4	25.00%	32 ¹⁶	25	8	(1)

Given that the Beneficiary was required to deploy to the stated number of locations (separately for each of the two SACs), and the extrapolated calculation results in four failures for each of the SACs, there is a shortfall of one required location for SAC 436115 and one required locations for SAC 436144. In 2022, the FCC issued separate letters determining that the Beneficiary had defaulted on the terms and conditions of receiving RBE support for each of these two study areas consistent with USAC's review of HUBB filings and initiated the one-year period of progressive withholding of support payments associated with such noncompliance.¹⁷ Because

¹³ Rounded to the nearest unit. It does not include non-statical sample results.

¹⁴ The failure rate was determined by a statistical formula that included a proportionate calculation of the number of failures against the population segregated by strata.

¹⁵ Per review of HUBB data as of April, 1, 2025, AAD identified that the Beneficiary removed five locations from its submission after March 1, 2022, reducing the certified locations from 23 to 18.

¹⁶ Per review of HUBB data as of April, 1, 2025, AAD identified that the Beneficiary removed twenty locations from its submission after March 1, 2022, reducing the certified locations from 52 to 32.

¹⁷ See Letter to Daniel Webster, General Manager/Chief Operating Officer, Northeast Rural Services, Inc., from Jodie C. Griffin, Chief, Telecommunications Access Policy Division, Wireline Competition Bureau, Federal Communications Commission (Apr. 6, 2022) (notifying the Beneficiary of default in SAC 436115 and initiating one year cure period) (Apr. 27, 2022) (notifying the Beneficiary of default in SAC 436144 and initiating one year cure period). *Connect America Fund et. al.*, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8769, 8799, paras. 92 (2014) (*RBE Order*)

the Beneficiary failed to come into compliance within the one-year period, the FCC directed USAC to end all support payments associated with these two SACs until the end of the support term and a determination of final default or until such time as the Beneficiary demonstrated compliance by taking advantage of its one-time opportunity to cure the default before the end of the deployment term.¹⁸ Accordingly, AAD has determined that the monetary effect for this finding of noncompliance is the continued withholding of all support disbursements.

RECOMMENDATION

Based on AAD's determination of a deployment obligation shortfall of one required location for SAC 436115 and one required location for SAC 436144, as noted in the Effect section above, the Beneficiary continues to fail in meeting the terms and conditions of the Rural Broadband Experiment. Therefore, AAD recommends that USAC Management continue to withhold all support payments until such time as the FCC determines that the Beneficiary has come into full compliance with its defined deployment obligations for SACs 436115 and 436144.¹⁹ If the Beneficiary has not come into compliance with its full deployment obligation as of the end of the deployment term, AAD recommend that USAC Management work with the FCC to determine additional corrective action.²⁰

BENEFICIARY RESPONSE

NRS disagrees with the audit findings. NRS maintains that all locations are eligible to receive service in compliance with applicable FCC standards. NRS has filed waivers (April of 2023) with the FCC pending FCC review and response refuting the number of available locations and the lack of a data set to report locations that have been passed. Given the lack of a bellwether data set and lack of guidance in location reporting methodology, NRS maintains that all eligible locations that can receive service in the subject SAC's are eligible to receive service in accordance with FCC guidelines.

AAD RESPONSE

In its response, the Beneficiary disputes the finding as it stated that locations were eligible to receive service and that also it submitted a waiver to reduce the number of locations. The Beneficiary did not dispute the the finding with respect the location with inadequate speed. AAD reiterates that until the FCC opines on the waiver request, AAD must base the testing and results on the original number of locations approved by the

(adopting a one-year period of time, after the FCC's determination of the carrier failing to meet the terms and conditions of its experiment, during which time an RBE support recipient has an opportunity to cure its noncompliance while support payments will be progressively withheld by 5% for the first six months of noncompliance and by 25% for the next six months of noncompliance until such time as compliance is demonstrated); see also *Connect America Fund et al.*, 29 FCC Rcd 15644 note 314 (2014) (explaining that the noncompliance framework applicable to RBE support recipients as adopted in the *RBE Order* is wholly separate from the noncompliance framework set forth in section 54.302 of the Commission's rules).

¹⁸ See *RBE Order*, 29 FCC Rcd 8769, para. 93.

¹⁹ *RBE Order*, 29 FCC Rcd 8769, para. 92.

²⁰ *RBE Order*, 29 FCC Rcd 8769, para. 93 (If at the end of this year period, the entity is still not in compliance, the Bureau will issue a letter to that effect, and USAC will draw on the entity's LOC for the recovery of all support that has been authorized.).

FCC. Further, the locations noted in this finding did not have broadband service or an eligible structure as required by FCC Rules, which AAD concludes did not meet the public interest obligation for RBE support.

FINDING #2: FCC DA 16-1363 (2016) – Inaccurate Location Information Reported on the HUBB

CONDITION

AAD selected a statistically valid sample of 50 units (50 locations)²¹ that the Beneficiary reported and certified in the HUBB portal for the RBE support at the 100 percent milestone and performed physical inspections to determine whether the locations were eligible for RBE support, the related geocodes were reported and certified accurately in the HUBB portal, and the locations met the public interest obligations for offering broadband service (at least 25 Mbps downstream/5 Mbps upstream) with latency suitable for real-time applications (less than 100 milliseconds), as required by the FCC.²² The Beneficiary reported inaccurate address locations for six units in its HUBB data submission for RBE support, as detailed in the table below.

SAC	Inaccurate Address
436115	1
436144	5

CAUSE

The Beneficiary indicated that it used 911 data to validate five of these locations.

EFFECT

AAD identified that information was not accurately reported on the HUBB. However, there is no monetary effect for this finding, as the Beneficiary was able to reconcile the differences and AAD was able to validate the geocoordinates.

RECOMMENDATION

AAD recommends that the Beneficiary correct and recertify the six units related to the failures in the HUBB.

BENEFICIARY RESPONSE

NRS accepts the recommendation contingent on NRS having the ability to make corrections to data in the HUBB portal.

²¹ AAD refers to a total of units/locations samples at a summary level; however, AAD contracted an independent statistician to select a statistically valid sample of units/locations for each SAC under the scope of this audit. See Scope section above.

²² *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations*, 31 FCC Rcd 12900 (15), pages 11-12 (2016). See also FCC Form 481 Officer Certification, *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations*, Docket No. 10-90, Public Notice, DA 16-1363, 31 FCC Rcd 12900, page 12 (2016), and *Connect America Fund, ETC Annual Reports and Certifications*, WC Docket No. 10-90, 14-58, Report and Order & Notice of Proposed Rulemaking, FCC 14-98, 29 FCC Rcd 8769, para. 74 (2014).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.309(a) (2018)	Recipients of Connect America Phase II support are required to offer broadband service with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas, at rates that are reasonably comparable to rates for comparable offerings in urban areas. For purposes of determining reasonable comparable usage capacity, recipients are presumed to meet this requirement if they meet or exceed the usage level announced by public notice issued by the Wireline Competition Bureau. For purposes of determining reasonable comparability of rates, recipients are presumed to meet this requirement if they offer rates at or below the applicable benchmark to be announced annually by public notice issued by the Wireline Competition Bureau, or no more than the non-promotional prices charged for a comparable fixed wireline service in urban areas in the state or U.S. Territory where the eligible telecommunications carrier receives support.
#1	<i>Connect America Fund, ETC Annual Reports and Certifications</i> , WC Docket No. 10-90, 14-58, Report and Order & Notice of Proposed Rulemaking, FCC 14-98, 29 FCC Rcd 8769, para. 74 (2014)	Build-Out Requirements for all Recipients. As we discuss above, all recipients of rural broadband support will receive support in 120 equal monthly disbursements over a 10-year support term, consistent with the support term we have adopted for the Phase II competitive bidding process. The support term will begin with the first disbursement of support after the entities have been notified that they are the winning bidders and that they have met the requirements outlined above. During this support term, the recipients will be required to meet interim build-out requirements consistent with the build-out requirements we have adopted generally for recipients of Connect America Phase II funding. By the end of the third year, the recipients must offer service meeting the public service obligations we adopted for the relevant experiment category to at least 85 percent of the number of required locations and submit the required certifications and evidence. By the end of the fifth year, the recipients must offer service meeting the public service obligations we adopted for the relevant experiment category to 100 percent of the number of required locations and submit the required certifications and evidence. Recipients must comply with the terms and conditions of rural broadband experiment support for the full 10-year support term.
#1	<i>Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations</i> ,	DO NOT report: ... Empty parcels of land ... Community anchor institutions (regardless of the size). Community anchor institutions include such entities as schools, libraries, hospitals and other medical providers, public safety entities, institutions of higher education, and community support organizations that facilitate greater use of broadband by vulnerable populations, including low-income, the unemployed, and the aged...Boats, recreational vehicles (RVs), tents, caves, and similar types of shelter that no one is using as a residence

Finding	Criteria	Description
	Docket No. 10-90, Public Notice, DA 16-1363, 31 FCC Rcd 12900, page 6 – Do’s and Don’ts (2016)	
#1	<i>Connect America Fund, ETC Annual Reports and Certifications</i> , WC Docket No. 10-90, 14-58, Report and Order & Notice of Proposed Rulemaking, FCC 14-98, 29 FCC Rcd 8769, para. 92 (2014)	Support Reductions and Recovery of Support. If a recipient begins receiving support, and the Bureau subsequently determines that it fails to meet the terms and conditions of its experiment, the Bureau will issue a letter evidencing the default, and USAC will begin withholding support.
#2	<i>Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations</i> , Docket No. 10-90, Public Notice, DA 16-1363, 31 FCC Rcd 12900, page 12 (2016)	We remind carriers that they have an obligation under section 54.316 to, in good faith and to the best of their knowledge, file complete and accurate information in the HUBB. This includes the obligation to file all locations to which a carrier has made service available in accordance with its specific obligations for the reporting period, not just a subset of those locations. Carriers also have a duty to correct or amend submitted information if they have reason to believe, either through their own investigation or upon notice from USAC, that the data is inaccurate, incomplete, or contains data errors or anomalies. This duty to correct or amend applies both before and after the carrier has filed and certified as complete its report for each reporting period.
#2	FCC Form 481 Officer Certification	“I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.”

ATTACHMENT I: SPECIALIST REPORT - ELITE SYSTEMS



ENGINEERING STUDY REPORT

RBE HIGH-COST PROGRAM

NORTHEAST RURAL

SACs 436115, 436144, 436148
Audit ID HC2022MO039

September 14th, 2023
Final: July 31st, 2025

www.elitesystems.com

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Northeast Rural SACs # 436115, 436144, 436148 Engineering Study Report RBE
Broadband Engineering Audit Program

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Acronyms and Abbreviations

Acronym/Abbreviation	Meaning
AWS	Amazon Web Services
DSLAM	Digital-Subscriber-Line-Access-Multiplexer
FCC	Federal Communications Commission
GIS	Geographic information system
HUBB	High-Cost Universal Broadband
KPI	Key Performance Indicators
SAC	Service Area Code
Exception	Location not meeting KPI requirements
MDU	Multi Dwellings Units (Apartment Building)

I. EXECUTIVE SUMMARY

Elite Systems was awarded a contract to conduct an independent audit of Northeast Rural, verifying compliance with the broadband service deployment obligations by Rural Broadband Experiments (RBE) carriers. This audit was conducted in Oklahoma within Service Area Codes (SAC) 436115, 436144, and 436148, encompassing 50 locations (50 units). Originally, Elite Systems was contracted to audit six SACs from Northeast Rural, but three of these SACs were rescinded by USAC AAD in July of 2023. The audit period extended from March 20th, 2023, to May 31st, 2023. The engagement was executed under contract AAD20_108, as part of the High-Cost Broadband Network and Engineering Audit Services program.

SAC		# of Locations	# of Units
436115	Oklahoma	19	19
436144	Oklahoma	16	16
436148	Oklahoma	15	15
Total		50	50

Table 1: Location count per SAC

Elite Systems was tasked with visiting the locations to confirm the Global Positioning System (GPS) coordinates, the type and number of units at each location, the outside plant deployment, and the Key Performance Indicators (KPIs) of speed and latency for each location and unit. The minimum obligated Key Performance Indicators (KPI), 47 C.F.R. § 54.309, for these SACs are:

- Download speed: 100 Mbps
- Upload speed: 25 Mbps
- Latency: 100ms or less

The audit was conducted in strict adherence to program specifications set forth by the Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD). The testing approach was systematically tiered by location to ensure a comprehensive evaluation.

Pre-Audit Documentation Review

Prior to conducting field visits, Elite Systems performed an extensive documentation review to assess the eligibility of sample locations for the RBE program. This included:

- Verifying SAC eligibility and alignment with Extremely High-Cost Census Blocks (ECHBs).
- Confirming broadband technology type (Fiber, DSL, Copper, or Fixed Wireless).
- Identifying locations with active broadband subscribers.
- Cross-referencing reported street addresses and geocodes with the HUBB database submissions.

RESULTS SUMMARY

Elite Systems tested 50 locations (50 units) in these SACs and discovered two locations not meeting the minimum KPIs. A unit is used to refer to an apartment in a multi-dwelling facility, where there could be multiple potential customers at one site. The field visits also discovered seven additional locations where there was either no structure or a structure that was not compliant with RBE requirements, DA 16-1363. See Table 2

Exception ¹	# of Locations	# of Units
KPI Failure	2	2
Ineligible Location – Building Type	7	7

Table 2: Summary of Exceptions

Table 3 outlines Elite Systems' findings regarding what was reported to the HUBB by Northeast Rural for this sample. More details on this can be seen in the Locations Field Visit Procedure section.

Exception	# of Locations	# of Units
HUBB Failure - Failure to validate address	6	6

Table 3: Incorrect HUBB Data Submission

¹ One location may contain multiple types of failures. Elite did not exclude overlapping failures from these counts. The total number of failures (excluding overlapping exceptions) is 8 units and locations.

II. TESTING AND DATA COLLECTION APPROACH

1. TEST FLOW PROCESS

The Elite Systems' team applied the following methodology in planning and executing all phases of the audit, as outlined in Figure 1.

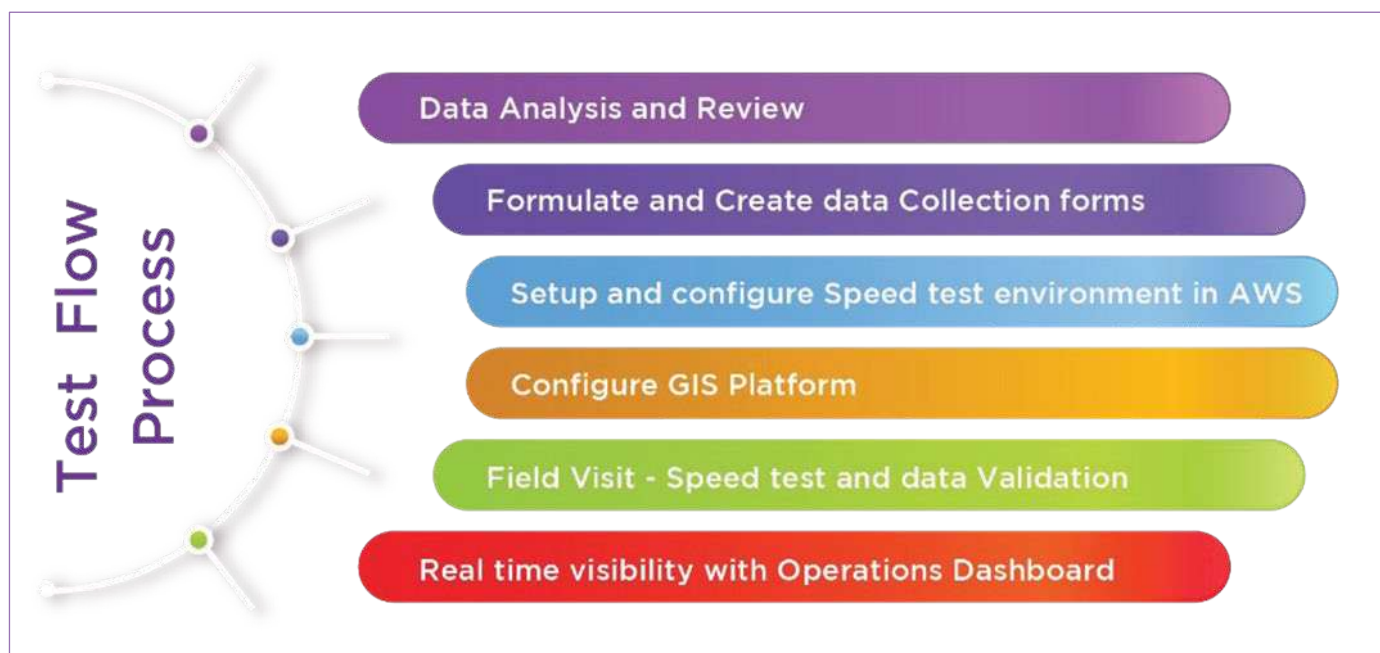


Figure 1: Engineering Testing Process

2. FIELD VISIT PROCEDURE

During the field visits, Elite Systems' team confirmed street addresses and geolocations, photographed the exterior of buildings, and identified the carrier's terminal where KPIs were measured. The team documented any discrepancies and ensured compliance with FCC regulations. All test results were recorded and uploaded in real-time to Elite Systems' servers for analysis. The team also verified broadband availability and tested KPIs, including download, upload, and latency. The field teams were accompanied by a representative from Northeast Rural for all visits.

For wired technologies, including Fiber, DSL, and Copper, testing was conducted at the terminal (the carrier's distribution box near the premises) with a spare service line provided by Northeast Rural. This line was connected to a residential gateway (router) to replicate the setup found at the subscribers' premises. Figure 2 illustrates the wireline testing setup.



Figure 2: Wireline Testing

For locations provided with fixed wireless service, testing was done by erecting a temporary tower with a wireless receiver attached to at least an eight (8) foot-tall pole. A router on the ground was connected to the NSC-100 to measure the broadband. See Figure 3.



Figure 3: Fixed Wireless Testing

Upon arrival at each location, the Elite Systems field team first attempted to reach the geolocation provided by the carrier via the HUBB. If both the street address and geolocation matched back-office records, the location was confirmed as a perfect match, and the team proceeded with KPI collection.

If the geolocation was correct but the postal address did not match, the team recorded the correct address and continued with KPI collection. Conversely, if the geolocation was inaccurate but the postal address matched, the team documented the correct geolocation from the nearest publicly accessible point (typically the mailbox) before proceeding.

When both the geolocation and postal address were incorrect, an on-site Northeast Rural technician provided the correct address using the Northeast Rural Communications Management Tool (CMT), which offers the most reliable field data. The team then recorded the correct postal address and geolocation before proceeding with KPI collection.

Additionally, the team ensured compliance with the following criteria:

- The structure must meet FCC standards as a single-family or multi-family dwelling. Group quarters, such as college dormitories, do not qualify as residential locations.
- GPS records and geolocation must align with existing records, with no duplicate entries.

For locations without a standard U.S. Postal Service address, technicians recorded data to establish the location via mapping or in-person verification. Addresses could not be assigned to the carrier pedestal, box, or node; empty parcels of land; locations under construction; community institutions (e.g., schools, libraries, hospitals, community support organizations, etc.); wireless infrastructure locations, such as cell towers; structures that are open to the elements; vacant structures that are condemned or are to be demolished; or boats, recreational vehicles, tents, caves, and similar types of shelter.

Per FCC Regulations², locations with GPS coordinates within 36 feet of a structure were excluded from Table 2 due to an allowable margin of error. Locations beyond 36 feet but still within property boundaries—common in rural areas—were also excluded.

Test results were recorded on the field engineer's tablet and uploaded to Elite Systems' servers for analysis by systems analysts and network engineers. A proprietary automated dashboard, developed by Elite Systems' software engineers, facilitated real-time monitoring by analysts and the USAC team. (see Figure 4).

²*In the Matter of Connect America Fund, Order, FCC DA 19-1165, para. 40 (2019) (The Bureau has determined that sets of geocoordinates a distance of 36 feet or more from another will describe separate structures.)*

This report is accompanied by 63 individual reports for each location audited. These reports are saved to the USAC SharePoint server and include the following details:

1. Verified postal address.
2. Description of the location, including pictures of the outside of the home or building.
3. Longitude and latitude coordinates of the service location.
4. Download speed measured in megabits per second (Mbps).
5. Upload speed measured in Mbps.
6. Latency measured in milliseconds.
7. Geocoded pictures of the serving terminal or DSLAM where KPI were collected.
8. Engineering report provided by the carrier.
9. Comments and notes taken by the field team on location.
10. Names of the Elite Systems technicians performing the engineering audit and the accompanying carrier's representative.
11. Date and time of the audit

3. EQUIPMENT, SOFTWARE, AND ANALYTICAL METHODOLOGY

The NSC-100 (RFC-6349 TrueSpeed) tool, used by most major carriers, was deployed to perform accurate testing of Ethernet and wireless connections. The system's software was hosted on AWS servers for network isolation and real-time data analysis, allowing for precise measurements of download, upload, and latency KPIs.

Elite Systems used ArcGIS Survey123 for real-time data collection from the field, as shown in Figures 4, 5, 6, and 7, which facilitated data verification, monitoring, and further analysis.

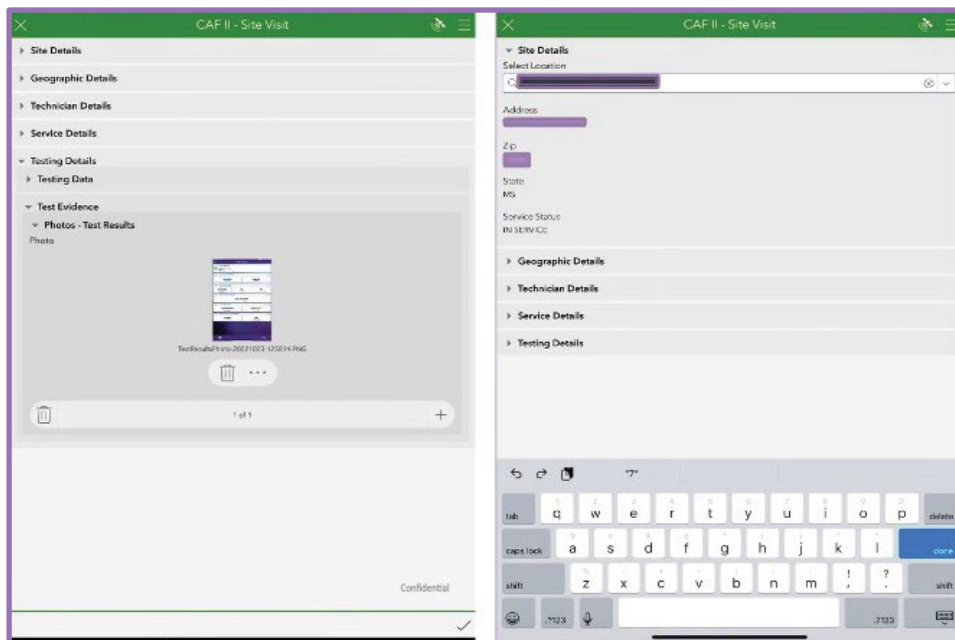
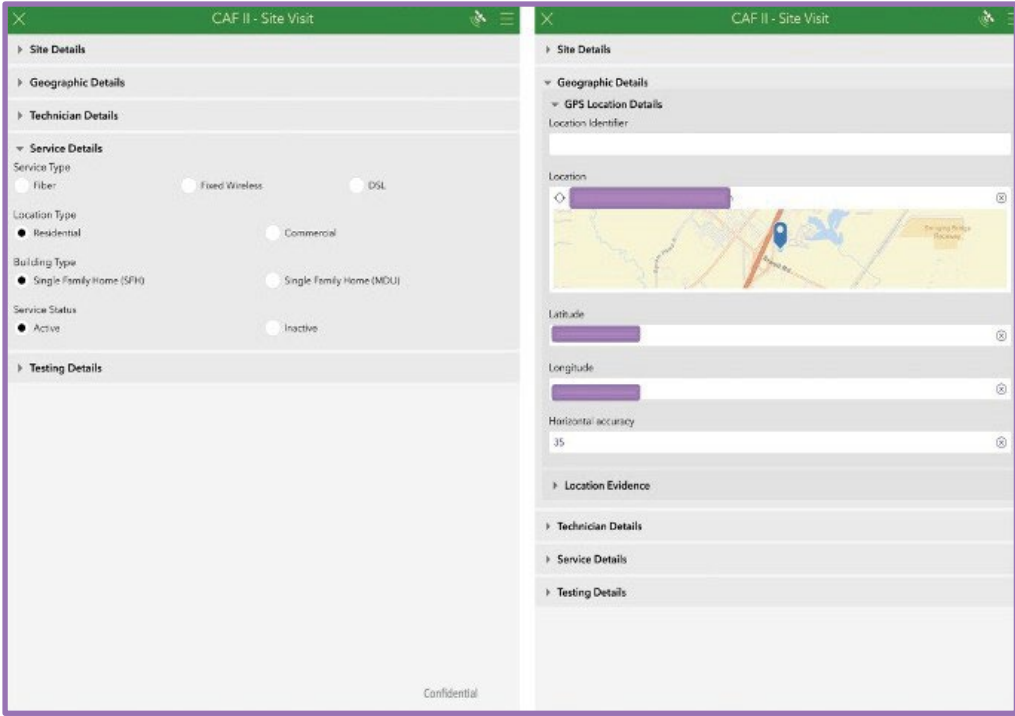


Figure 4: Field Survey Data Collection 1



CAF II - Site Visit

Site Details

Geographic Details

Technician Details

Service Details

Service Type

☐ Fiber ☐ Fixed Wireless ☐ DSL

Location Type

☒ Residential ☐ Commercial

Building Type

☒ Single Family Home (SFH) ☐ Single Family Home (MDU)

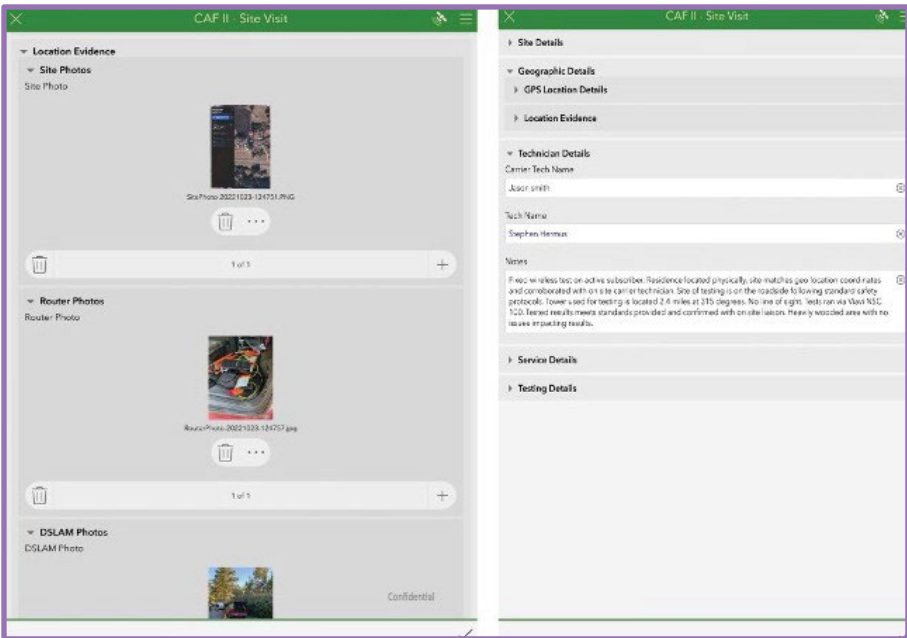
Service Status

☒ Active ☐ Inactive

Testing Details

Confidential

Figure 5: Field Survey Data Collection 2



CAF II - Site Visit

Location Evidence

Site Photos

Site Photo

Site Photo: 2022-10-23-124751.png

1 of 1

Router Photos

Router Photo

Router Photo: 2022-10-23-124757.png

1 of 1

DSLAM Photos

DSLAM Photo

Confidential

CAF II - Site Visit

Site Details

Geographic Details

GPS Location Details

Location Identifier

Location

Latitude

Longitude

Horizontal accuracy

35

Location Evidence

Technician Details

Service Details

Testing Details

Figure 6: Field Survey Data Collection 3

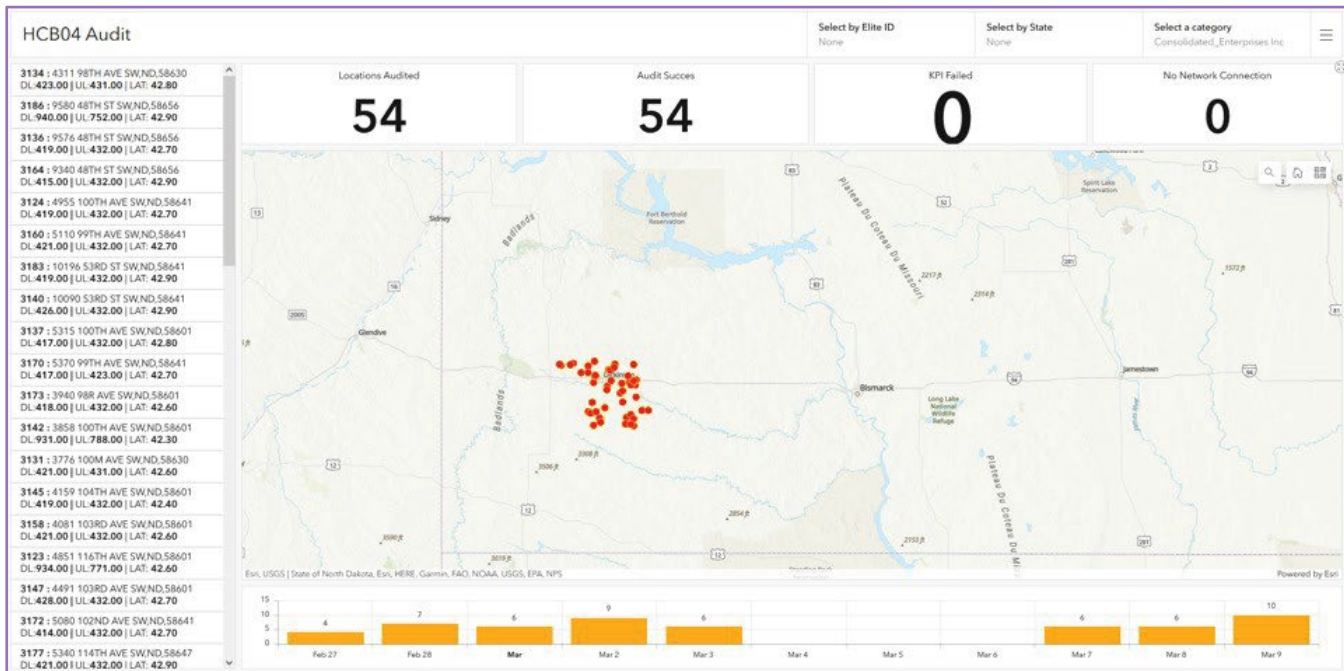


Figure 7: Dashboard Sample

III. CONCLUSION:

1. DOCUMENTATION REVIEW FINDINGS

The documentation provided by Northeast Rural met the minimum program requirements for location audit preparation. All necessary details, including postal addresses, geolocations, technology types, and active customer information, were verified to ensure proper eligibility for the RBE program.

Northeast Rural received \$107,168.40 out of the \$141,168.36 allocated by the FCC to SACs 436115, 436144, and 436148. In Table 3, SACs highlighted in yellow were removed from the audit by the USAC AAD.

SAC	FCC Allocated	Amount Disbursed
436113	\$194,944.45	\$119,971.57
436115	\$84,744.00	\$61,721.88
436143	\$2,138,771.85	\$1,307,484.84
436144	\$10,751.97	\$7,005.92
436146	\$196,413.90	\$134,952.53
436148	\$45,672.39	\$38,440.60

Table 4: Disbursement by SAC

In accordance with the methodology detailed in the previous section of this report, all locations were verified to be within their respective SAC boundaries. See Figure 8. There were no locations within the sample that were within EHCB boundaries. Based on the suggestion of the USAC AAD team on August 31st, 2023, Elite Systems based their analysis on census block boundaries rather than SAC boundaries, due to SAC boundaries being out of date for RBE. No exceptions were found during this phase of the engineering audit.

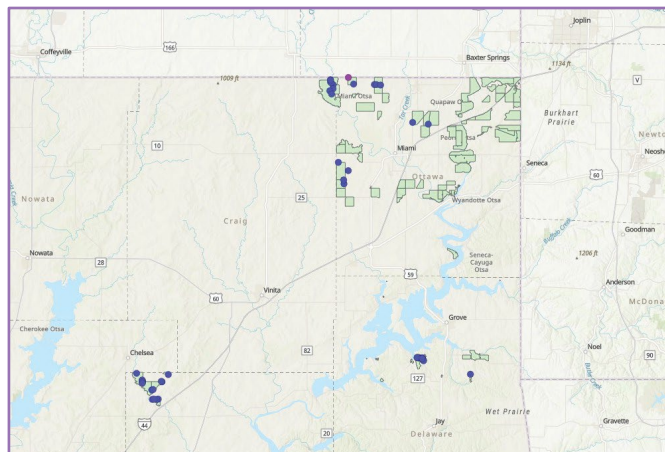


Figure 8: Distribution of Locations on Census Blocks

A. KPI TEST FINDINGS

Elite Systems tested 50 locations (50 units) in these SACs and discovered all locations met the minimum required KPIs, except for two locations. The tested locations were all serviced with fiber. One location could not be tested, as the site did not have a structure or a terminal to test from. Based on Google satellite data, there was a structure prior to April 2020. Another location did not meet the minimum download speed KPI of 100 Mbps for SAC 436144.

B. BUILDING TYPE FINDINGS

To qualify for RBE eligibility, the location and unit must be in an inhabitable condition. Trailers, large businesses, certain community centers (including places of worship), and empty lots are not eligible. Table 5 lists locations and units that are found to be ineligible and are reported as exceptions.

SAC		# of Locations	# of Units
SAC 436115	Oklahoma	4	4
	Empty Parcel	3	3
	Community Anchor Institutions	1	1
SAC 436144	Oklahoma	3	3
	Empty Parcel	3	3
SAC 436148	Oklahoma	0	0

Table 5: Exceptions per building type

C. ADDRESS AND GEOLOCATION FINDINGS

Validating the street address and geolocation for all sample locations against what Northeast Rural submitted in the HUBB was part of the location visit requirement. Elite Systems found the following exceptions: six locations had an incorrect address reported on the HUBB, no locations had geolocation reported more than 36 feet from the validated structure, and no locations had both incorrect addresses reported on the HUBB as well as geolocation reported more than 36 feet from validated structure.

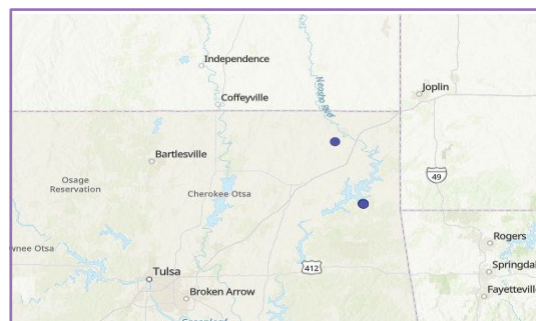


Figure 8: Distribution of Locations on Census Blocks

APPENDIX A: ADDITIONAL ANALYSIS

Elite Systems, as part of the documentation review process, undertook an investigation of the Northeast Rural's website, as well as other advertising channels, are promoting broadband services in the state of Oklahoma. In addition, the data analysis team collected the billing rate and data allowance for current subscribers.

The review found that Northeast Rural's average billing for active subscribers came below the average rate as determined by the FCC's 2021 Urban Rate Survey - Fixed Broadband Service Analysis, which serves as a reasonable comparability benchmark. See Tables 6, 7, 8.

Audit location Service Status	Audited Subscribers Status	Average of Total Monthly charges
Active	11	\$70
Inactive	8	-

Table 6: SAC 436115- Oklahoma

Audit location Service Status	Audited Subscribers Status	Average of Total Monthly charges
Active	8	\$64
Inactive	8	-

Table 7: SAC 436144- Oklahoma

Audit location Service Status	Audited Subscribers Status	Average of Total Monthly charges
Active	8	\$58
Inactive	7	-

Table 8: SAC 436148- Oklahoma

The data allowance for active subscribers was found to be comparable to offerings in urban areas of an average of 350GB per month.

Serving Technology	Capacity Allowance (GB/Mo)
Fiber	Unlimited

Table 9: Data Allowance

INFO Item: Audit Released August 2025
Attachment D
10/27/2025

Attachment D

HC2023LR019

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

HORRY TELEPHONE COOPERATIVE, INC.

**LIMITED SCOPE PERFORMANCE AUDIT ON
COMPLIANCE WITH THE FEDERAL UNIVERSAL
SERVICE FUND HIGH COST SUPPORT MECHANISM RULES**

USAC AUDIT No. HC2023LR019



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Executive Summary

May 30, 2025

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “we”) was engaged to conduct a limited scope performance audit on the compliance of Horry Telephone Cooperative, Inc. (HTC or the Beneficiary), study area code (SAC) 240528, for disbursements made from the federal Universal High Cost (HC) Program during the year ended December 31, 2021. We conducted the audit field work from January 26, 2023, to November 12, 2024.

We conducted the limited scope 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 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 limited scope performance audit were to evaluate the Beneficiary’s compliance with the regulations and orders governing the federal Universal Service HC Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission’s (FCC’s) Orders governing the Universal Service Support for the HC Program relative to disbursements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. Sikich’s responsibility is to evaluate the Beneficiary’s compliance with FCC Rules based on our limited scope performance audit.

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

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

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

Audit Results and Recovery Action

Based on the test work performed, our audit disclosed that the Beneficiary did not comply with FCC Rules, as set forth in the three detailed audit findings discussed below.

Audit Results	Monetary Effect			Recommended Recovery ²
	CAF BLS	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 51.917(d)(1)(iii)-(v) (2020) – Inaccurate Revenue-Transitional Interstate Access Service Revenue The Beneficiary did not accurately report revenues earned for providing interstate switched access services.	\$0	(\$1,099)	(\$1,099)	\$0
Finding No. 2, 47 C.F.R. § 32.2000(g)(2)(iii) (2019) – Improper Methodology Used to Calculate Depreciation Expense The Beneficiary incorrectly calculated its depreciation expense using asset ending balances rather than average balances.	(\$90,779)	\$0	(\$90,779)	\$0
Finding No. 3, 47 C.F.R. § 64.901 (2019) – Inaccurate Allocation Factors Used for Non-Regulated Assets – Cost Study Adjustments The Beneficiary incorrectly calculated its Part 64 allocation amounts using inaccurate allocation rates for non-regulated assets..	\$165,458	\$0	\$165,458	\$165,458

² The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

Audit Results	Monetary Effect			Recommended Recovery ²
	CAF BLS	CAF ICC	Total	
Total Net Monetary Effect	<u>\$74,679</u>	<u>(\$1,099)</u>	<u>\$73,580</u>	<u>\$165,458</u>

USAC Management Response

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 240528, for the HC 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.

Finding	CAF BLS (A)	CAF ICC (B)	USAC Recovery Action (A)+(B)	Rationale for Difference (if any) From Auditor Recommended Recovery
Finding No. 1	\$0	(\$1,099)	(\$1,099)	N/A
Finding No. 2	(\$90,779)	\$0	(\$90,779)	N/A
Finding No. 3	\$165,458	\$0	\$165,458	N/A
Total	<u>\$74,679</u>	<u>(\$1,099)</u>	<u>\$73,580</u>	N/A

Background and Program Overview

Background

Horry Telephone Cooperative, Inc. (HTC or the Beneficiary) is a cost-based eligible telecommunications carrier (ETC) that provides services to more than 100,000 subscribers in Horry, Georgetown, and Marion County, South Carolina. The Beneficiary operates through its wholly owned subsidiary, Connected Investments LLC (CIV), under which it has two main business lines: Data Publishing and Bluewave Communications. Data Publishing handles the publication of directories for telephone companies, private residential communities, and HTC itself. Bluewave Communications is a Competitive Local Exchange Carrier (CLEC) telecommunications company that offers voice, video, and data services. Additionally, HTC has partnerships with AT&T through Tide Mobility LLC, which provides various services including billing and collections, tower leases, access services, and commissions from phone equipment, and wireless monthly services. The Beneficiary also offers internet, video, security monitoring, and wireless services. These services are considered non-regulated under Part 64 accounting rules, unlike their regulated local exchange 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 collection and disbursement of USF money through four USF programs: Lifeline, E-Rate, HC, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

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

- **High Cost Loop (HCL) Support:** HCL is available for rural companies operating in service areas where the cost to provide service exceeds 115 percent of the national average cost per loop.
- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (ICC) Support:** CAF ICC support is available to rate-of-return ILECs to assist them in offsetting ICC revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's eligible recovery begins with its base period revenue. A rate-of-return carrier's base period revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Program Year (PY) 2011 and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The base period revenue for rate-of-return carriers is reduced by 5 percent in each year beginning with the first year of the reform. A rate-of-return carrier's eligible recovery is equal to the adjusted base period revenue for the year in question, less—for the relevant year of the transition—the sum of: (1) projected terminating intrastate switched access revenue, (2) projected interstate switched access revenue, and (3) projected net reciprocal compensation revenue.
- **CAF Broadband Loop Support (BLS):** CAF BLS is a reform of the Interstate Common Line Support (ICLS) that helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

Objectives, Scope, and Procedures

Objective

The purpose of our limited scope performance audit was to determine whether the Beneficiary complied with FCC Rules for the 2021 disbursement period.

Scope

The chart below summarizes the HC Program support included in the audit scope.

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
CAF BLS	2019	2021	\$9,811,068
HCL	2019-2020	2021	\$0 ³
CAF ICC	2018-2020	2021	\$96,642
Total			<u>\$9,907,710</u>

Procedures

We performed the following procedures:

A. High Cost Program Support Amount

We recalculated the support that the Beneficiary received for each HC component to determine whether there were no more than nominal differences between the amounts received and those recorded in the HC system.

B. High Cost Program Process

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

C. Fixed Assets

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

D. Operating Expenses

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

³ The Beneficiary did not receive HCL support for the 2021 disbursement period.

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 used to calculate HC 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 No. 1, 47 C.F.R. § 51.917(d)(1)(iii)-(v) (2020) – Inaccurate Revenue-Transitional Interstate Access Service Revenue****Condition**

We obtained and examined the Beneficiary's billing reports, general ledger, and National Exchange Carrier Association (NECA) CAF ICC Tariff Review Plan (TRP) to determine whether the Beneficiary accurately reported payments earned for providing interstate switched access services for HC Program purposes.

FCC Rules require carriers that receive payments for interstate switched access services after the period used to measure the adjustments to treat such payments as actual revenue in the year the payment is received, and to true up (reflect the differences between estimated and actual) interstate switched access services revenues as an additional adjustment for that year.⁴

We reviewed the transitional interstate switched access service revenue reported in the Beneficiary's Carrier Access Billing System (CABS) reports and determined that they did not agree with the revenue amounts reported in the Beneficiary's CAF ICC true-up (true-up) filing to USAC.

Below, we have summarized the differences identified between the true-up billed transitional interstate switched access revenue and the revenue amounts recorded in the Beneficiary's CABS reports for PY's 2018-2019 and 2019-2020.

⁴ See 47 CFR 51.917(d)(1)(iii)-(v)(2020).

Interstate Revenue	PY July 2018 – June 2019 (A)	PY July 2019 – June 2020 (B)	Total Interstate Revenue July 2018 – June 2020 (A)+(B)
Transitional Interstate Switched Access Revenue per CAF ICC-filing	\$1,661,599	\$1,532,883	\$3,194,482
Transitional Interstate Switched Access Revenue per CABS Reports	\$1,660,843	\$1,531,441	\$3,192,284
Difference	<u>\$756</u>	<u>\$1,442</u>	<u>\$2,198</u>

Cause

The Beneficiary lacked a robust system for collecting, reporting, and monitoring data, which resulted in inaccuracies in transitional interstate switched access revenue reporting for HC Program purposes. These inaccuracies arose due to timing differences between the recognition of revenue in the general ledger and its reporting in the CAF-ICC filing. Specifically, the Beneficiary reported revenues in the CAF-ICC true up filing based on the financial statement dates rather than usage dates, leading to compliance issues.

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by subtracting the overstated amounts of \$756 and \$1,442 from the Beneficiary's interstate revenue reported for program year July 2018 to June 2019 and for program year July 2019 to June 2020, respectively. We summarize the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF ICC	(\$1,099) ⁵
Total	<u>(\$1,099)⁶</u>

Recommendations

We recommend:

1. The Beneficiary implement policies, controls and procedures that ensure the interstate switched access services revenues are reported to USAC for HC Program purposes based on usage dates rather than financial statement dates.
2. The Beneficiary reconcile the transitional interstate switched access services revenues before they are reported for HC Program purposes.

⁵ The monetary effect listed is only related to disbursements during PY 2021. Accordingly, although Sikich identified \$1,099 in improper disbursements for PY 2021, additional amounts may have been improperly disbursed in prior and subsequent periods due to the same or similar errors.

⁶ The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

The Beneficiary can learn more about documentation and reporting requirements on the USAC's website at: <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common%20audit-findings-high-cost-program/>.

Beneficiary Response

HTC's prior reporting methodology was based on prior instruction from NECA and other entities regarding the need to calendarize usage data. Horry acknowledges this finding and is adjusting reporting procedures accordingly.

Sikich's Response

Based on the Beneficiary's agreement with this finding via e-mail⁷ and the Beneficiary's response above, our position on this finding has not changed.

Finding No. 2, 47 C.F.R. § 32.2000(g)(2)(iii) (2019) – Improper Methodology Used to Calculate Depreciation Expense

Condition

We obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether it properly calculated its depreciation expense and its associated accumulated depreciation for HC Program purposes.

In accordance with FCC Rules, the Beneficiary must record depreciation expense using average monthly asset balances based on the first and last day of each month and record the associated accumulated depreciation accordingly.⁸ However, the Beneficiary used a straight-line depreciation methodology based on ending asset balance to record depreciation expense. This resulted in an inaccurate calculation of depreciation expenses and in the associated accumulated depreciation.

We summarized the differences between the depreciation amounts that should have been recorded using average monthly asset balances and the amounts reported in the Beneficiary's Part 64 Cost Study as of December 31, 2019, in the table below:

Recalculation of Part 64 Balances			
Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A)-(B)
Accumulated Depreciation of Support Assets (Account 3100-2100)	\$34,009,201	\$34,289,743	(\$280,542)

⁷ Sikich received explicit agreement with the findings via an email received on 5/30/25.

⁸ See 47 CFR 32.2000(g)(2)(iii) (2019).

Account	As Reported in Part 64 Cost Study (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A)-(B)
Accumulated Depreciation of Central Office Equipment (COE) Switching (Account 3100-2210)	\$7,837,057	\$7,728,658	\$108,399
Accumulated Depreciation of COE Transmission (Account 3100-2230)	\$92,751,779	\$92,765,969	(\$14,190)
Accumulated Depreciation of Cable & Wire Facilities (Account 3100-2410)	\$195,137,516	\$195,137,487	\$29
Depreciation Expense Support Assets (Account 6560-2110)	\$1,601,081	\$1,881,623	(\$280,542)
Depreciation Expense COE Switching (Account 6560-2210)	\$101,241	\$0	\$101,241
Depreciation Expense COE Transmission (Account 6560-2230)	\$10,528,292	\$10,542,482	(\$14,190)
Depreciation Expense Cable & Wire Facilities (Account 6560-2410)	\$6,309,809	\$6,309,780	\$29

Cause

The Beneficiary misinterpreted FCC Rules regarding the calculation of depreciation expense and accumulated depreciation amounts within its Part 64 Cost Study.

Effect

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

Support Type	Monetary Effect and Recommended Recovery
CAF BLS	(\$90,779)
Total	<u>(\$90,779)⁹</u>

Recommendations

We recommend:

1. The Beneficiary implement policies, controls and procedures to ensure the correct depreciation methodology is used in compliance with FCC Rules, ensuring accurate data reporting for HC Program purposes.

⁹ The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

2. The Beneficiary perform timely reviews to ensure the system is functioning properly.

The Beneficiary can learn more about documentation and reporting requirements on the USAC's website at: <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common%20audit-findings-high-cost-program/>.

Beneficiary Response

Horry acknowledges this finding and is taking steps to update procedures accordingly.

Sikich's Response

Based on the Beneficiary's agreement with this finding via e-mail¹⁰ and the Beneficiary's response above, our position on this finding has not changed.

Finding No. 3, 47 C.F.R. § 64.901 (2019) – Inaccurate Allocation Factors Used for Non-Regulated Assets – Cost Study Adjustments

Condition

We obtained and examined documentation including a listing of the Beneficiary's cost study adjustments and supporting calculations to determine whether the cost study adjustments for non-regulated assets were accurately calculated, supported by appropriate documentation, and accurately reported for HC Program purposes for the 12-month period ended December 31, 2021 as required by FCC Rules.¹¹

We tested 28 non-statistical samples¹² consisting of investment and expense cost study adjustments reported for the 12-month period ended December 31, 2021. Although the Beneficiary's adjustment details the factors it used to allocate costs between regulated and non-regulated balances, the Beneficiary could not provide documentation adequate to support that the following cost study adjustments were accurate:

- **Investment Adjustment #2:** The Beneficiary made a \$49,026,930 adjustment to remove allocation amounts for non-regulated balances for various accounts, including land, vehicles, equipment, buildings, office equipment, and computers.
- **Investment Adjustment #7:** The Beneficiary made a \$13,843,214 adjustment to net intangible amortization by removing a portion from regulated costs for non-regulated asset activities.

¹⁰ *Id.* at footnote 7.

¹¹ *See* 47 CFR 64.901 (2019).

¹² 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 account's effect on high-cost support.

- **Expense Adjustment #2 & #3:** The Beneficiary made a \$504,759 (#2) and a \$1,136,396 (#3) adjustment to remove Part 64 allocation depreciation (amortization) expense amounts from regulated costs for non-regulated activities.

As we determined that the Beneficiary's cost allocations factors were not adequately supported, thus inaccurate, we recalculated the cost study adjustments with the allocation factors supported by the documentation the Beneficiary provided.

We summarized the effect to Part 64 balances resulting from the recalculation of allocation factors in the table below:

Recalculation of Part 64 Balances				
Adjustments	Account	Beneficiary Cost Study Adjustment (A)	Sikich Audited Cost Study Adjustment (B)	Variance Over/(Under) Reported (A)-(B)
Investment Adjustment #2	Land (Account 2110)	\$2,736,960	\$2,691,565	\$45,395
	Support Assets (Account 2110)	\$32,439,759	\$32,858,521	(\$418,762)
	Intangible Assets (Account 2690)	\$13,782,721	\$14,542,442	(\$759,721)
	Accumulated Depreciation of Support Assets (Account 3100-2100)	\$27,345,149	\$27,888,502	(\$543,353)
	Accumulated Amortization of Intangible Assets (Account 3500)	\$10,818,586	\$11,414,920	(\$596,334)
Investment Adjustment #7	Intangible Assets (Account 2690)	\$13,782,438	\$14,542,143	(\$759,705)
	Accumulated Amortization of Intangible Assets (Account 3500)	\$10,866,292	\$11,414,920	(\$548,628)
Expense Adjustment #2	Amortization Expense (Account 6564)	\$483,377	\$510,021	(\$26,644)
Expense Adjustment #3	Depreciation Expense Support Assets (Account 6560-2110)	\$1,125,674	\$1,129,992	(\$4,318)
Total		<u>\$113,380,956</u>	<u>\$116,993,026</u>	<u>(\$3,612,070)</u>

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure proper maintenance of records and accurate calculation of allocation factors for excluding non-regulated assets. Specifically, the Beneficiary provided allocation calculations but did not have source documentation to show how the allocation factors themselves were developed for four sampled adjustments. Additionally, the employees who handled the cost study adjustment retired, which resulted in the Beneficiary being unable to locate detailed files.¹³

¹³ Per the Beneficiary's responses to Prepared by Client (PBC) Request 91, on November 22, 2023.

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by adjusting the CAF BLS algorithm to subtract the overstated and add the understated account balances in the "Recalculation of Part 64 Balances" table above, for the filing period of December 31, 2019. We have summarized the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$165,458
Total	<u>\$165,458</u>

Recommendations

We recommend:

1. USAC management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary implement policies, controls and procedures to ensure it maintains supporting documentation sufficient to demonstrate the use of accurate allocation factors in accordance with FCC Rules.¹⁴

The Beneficiary can learn more about documentation and reporting requirements on the USAC's website at: <https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common%20audit-findings-high-cost-program/>.

Beneficiary Response

Horry acknowledges this finding and has updated procedures on subsequent filings accordingly.

Sikich's Response

Based on the Beneficiary's agreement with this finding via e-mail¹⁵ and the Beneficiary response above, our position on this finding has not changed.

¹⁴ As it is possible that the Beneficiary used allocation factors in periods prior to and after the 2019 data periods that we reviewed as part of the scope of this audit period, it would be suggested that USAC HC Management perform follow-up to ensure the Beneficiary updates non-regulated adjustments with cost causative allocation factors that can be documented.

¹⁵ *Id.* at footnote 7.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 51.917(d)(1)(iii)-(v) (2020)	<i>(d) Eligible Recovery for Rate-of-Return Carriers.</i> <i>(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> <i>(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:</i> <i>(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;</i> <i>(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</i> <i>(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.</i> <i>(D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.</i> <i>(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</i>

Finding	Criteria	Description
		<i>beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year.</i> <i>(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.</i>
2	47 C.F.R. § 32.2000(g)(2)(iii) (2019)	<i>(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.</i>
3	47 C.F.R. § 64.901 (2019)	<i>(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such a purpose.</i> <i>(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.</i> <i>(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.</i> <i>(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.</i> <i>(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</i>

Finding	Criteria	Description
		<i>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.</i> <i>(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.</i> <i>(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.</i>

Sikich CPA LLC

INFO Item: Audit Released August 2025
Attachment E
10/27/2025

Attachment E

HC2024LR024

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

SOUTH PARK TELEPHONE COMPANY

**LIMITED SCOPE PERFORMANCE AUDIT ON
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
HIGH COST SUPPORT MECHANISM RULES**

USAC AUDIT No. HC2024LR024



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Executive Summary

June 13, 2025

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “we”) was engaged to conduct a limited scope performance audit on the compliance of South Park Telephone Company (Beneficiary), study area code (SAC) 462195, for disbursements made from the federal Universal High Cost (HC) Program during the year ended December 31, 2022. We conducted the audit field work from March 6, 2024, to June 13, 2025.

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

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

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

condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period.

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

Audit Results and Recovery Action

Based on the test work performed, our audit disclosed that the Beneficiary did not comply with FCC Rules, as set forth in the detailed audit finding discussed below.

Audit Results	Monetary Effect		Recommended Recovery ²
	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 51.917(d)(1)(iii) and FCC Order DA 20-692 (II.D.12) (2020)– Inaccurate Reporting of Exogenous Costs The Beneficiary did not use the correct National Exchange Carrier Association (NECA) guidance factors when calculating its exogenous costs.	(\$204)	(\$204)	\$0
Total Net Monetary Effect	(\$204)	(\$204)	\$0

USAC Management Response

USAC management concurs with the audit results for SAC 462195, 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.

Finding	CAF ICC	USAC Recovery Action	Rationale for Difference (If Any) From Auditor Recommended Recovery
Finding #1	<u>(\$204)</u>	<u>(\$204)</u>	<u>N/A</u>
Total	<u>(\$204)</u>	<u>(\$204)</u>	<u>N/A</u>

² The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

As the finding above represents an 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

The Beneficiary is a model-based eligible telecommunications carrier (ETC) that provides Part 64 regulated services to more than 140 subscribers in central Colorado. In addition to Part 64 regulated services, the Beneficiary provides internet and television which are regulated differently than local exchange services but are specifically considered non-regulated as it pertains to the Part 64 regulated/non-regulated accounting.

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 collection and disbursement of USF money through four USF programs: Lifeline, E-Rate, HC, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate any matter of universal service policy.

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

- **High Cost Loop (HCL) Support:** HCL is available for rural companies operating in service areas where the cost to provide service exceeds 115 percent of the national average cost per loop.
- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (ICC) Support:** CAF ICC support is available to rate-of-return ILECs to assist them in offsetting ICC revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's eligible recovery begins with its base period revenue. A rate-of-return carrier's base period revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Program Year (PY) 2011 and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The base period revenue for rate-of-return carriers is reduced by 5 percent in each

year beginning with the first year of the reform. A rate-of-return carrier’s eligible recovery is equal to the adjusted base period revenue for the year in question, less—for the relevant year of the transition—the sum of: (1) projected terminating intrastate switched access revenue, (2) projected interstate switched access revenue, and (3) projected net reciprocal compensation revenue.

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

Objectives, Scope, and Procedures

Objective

The purpose of our limited scope performance audit was to determine whether the Beneficiary complied with FCC Rules for the 2022 disbursement period.

Scope

The chart below summarizes the HC Program support included in the audit scope.³

HC Support	Data Period	Disbursement Period	Disbursements Audited
CAF ICC	2019-2021	2022	\$103,098

Procedures

We performed the following procedures:

A. High Cost Program Support Amount

We recalculated the support that the Beneficiary received for each HC component to determine whether there were no more than nominal differences between the amounts received and those recorded in the HC system.

B. High Cost Program Process

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

C. Revenues

³ While South Park became a model-based company in 2018, the scope of this audit only relates to the CAF ICC disbursements paid in calendar year 2022.

We obtained and examined the Beneficiary’s CAF ICC True-Up supporting documentation, Interstate Switched Access Revenue Allocation documentation, and general ledger detail for revenue accounts to determine whether the Beneficiary reported accurate Interstate Billed Switched Access Revenues, Transitional Intrastate Access Service Revenues, Access Charge Rate Revenues, and Incremental Fees.

Detailed Audit Finding

Finding No. 1, 47 C.F.R. § 51.917(d)(1)(iii)(2020) and FCC Order DA 20-692 (II.D.12) (2020) – Inaccurate Reporting of Exogenous Costs

Condition

The Beneficiary did not accurately report its incremental exogeneous costs⁴ in the CAF ICC True-Up adjustments it reported for HC Program purposes for the PY July 2020 – June 2021.

The Beneficiary elected a model company⁵ (A-CAM II) cost model beginning in 2018, and therefore used the NECA guidance for model companies to calculate incremental exogeneous costs.

We recalculated the Beneficiary’s incremental exogenous costs by determining the incremental increase in the telecommunications relay services (TRS), the North American Numbering Plan Administrator (NANPA), and FCC regulatory fees attributable to switch access and common line rates that were higher than the amounts the Beneficiary reported in its 2011 base-year tariff filing. Based on our recalculation, we identified the following variance:

Incremental Exogenous Costs Reported to USAC in 2020	Incremental Exogenous Costs Recalculation by Sikich	Variance Overstatement
\$577	\$169	\$408

⁴ The incremental exogenous costs are reported on Line 43 of the EC1050, TS Switched Access – Other, encompassing Telecommunications Relay Service (surcharge increment), regulatory fees (surcharge increment), and North American Numbering Plan Administration (fee increment). For model companies, the incremental amount of surcharges/fees that can be recovered will include amounts associated with switched access and common line.

⁵ Model companies are the rate-of-return carriers that elected to transition to a new cost model for calculating HC support. Model companies are eligible to receive funding from the Alternate Connect America Cost Model (ACAM) program in exchange for meeting defined broadband build-out obligations.

Cause

The Beneficiary did not have adequate policies, procedures, and processes in place to ensure that it used the NECA guidance applicable to the specific CAF ICC PY being reported when calculating its incremental exogenous costs. Specifically, the Beneficiary used the 2016 NECA guidance factors instead of the 2018 factors that were applicable to the calculation of incremental exogenous costs for the July 2020 to June 2021 PY reported.

Effect

We calculated the monetary impact to the Beneficiary's HC Program filing by adjusting the CAF ICC algorithm to remove the \$408 in overstated incremental exogenous costs for PY July 2020 – June 2021. We summarized the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2022, in the table below.

Support Type	Monetary Effect & Recommended Recovery ⁶
CAF ICC	(\$204)
Total	(\$204)⁷

Recommendation

We recommend that the Beneficiary implement adequate policies, procedures, and processes to ensure that it consistently calculates its incremental exogenous costs using the NECA guidance applicable to the CAF ICC PY for which the Beneficiary is reporting. Specifically, the Beneficiary should verify that it uses the factors and calculation method cited in the NECA guidance for the applicable CAF ICC PY when calculating its incremental exogenous costs to ensure that it accurately reports data to USAC for HC Program purposes.

In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at <http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx>.

Beneficiary Response

The Beneficiary agrees with the finding. This issue had been addressed on the following CAF ICC filing prior to the start of this audit.*

Sikich Response

As the Beneficiary agreed with the finding, our position regarding this finding and recommendation remain changed.

⁶ The HC Program does not pay additional support in the event of a finding resulting in an underpayment, therefore we are not recommending a recovery.

⁷ The relevant PY spanned from July 2020 to June 2021 and was trued-up during the July 2022 to June 2023 PY. Because the audit period covered the 2022 disbursement period, this issue only affected the second half of the audit period. The monetary effect of the overstated exogenous cost incurred is therefore \$204 (\$408/2).

**Sikich did not evaluate whether the issue was corrected by the Beneficiary in the following CAF ICC filing prior to the start of the audit as the subsequent filing period falls outside of the scope of our audit of the 2022 disbursements.*

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 51.917(d)(1)(iii)(2020)	<i>(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:</i> <i>(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;</i> <i>(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</i> <i>(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.</i> <i>(D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.</i>
1	FCC Order: DA 20-692 (II.D.12) (2020)	<i>12. Outreach. In 2016, the Bureau granted a partial, one-year waiver of the Commission's prohibition on outreach cost recovery to permit recovery of costs for specific IP Relay outreach efforts to meet the TRS needs of people who are deafblind (see footnote below). This waiver was renewed each year thereafter.</i>

Finding	Criteria	Description
		<i>In 2019 the Bureau expanded the scope of the waiver to permit Sprint to recover costs for its outreach efforts to the broader community of potential IP users.</i> <i>Footnote 31: See 2016 TRS Rate Order, 31 FCC Rcd at 7251-52, para. 19; see also Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities; Structure and Practices of the Video Relay Service Program, CG Docket Nos. 03-123 and 10-51, Order, 32 FCC Rcd 5142, 5145-45, paras. 11-13 (CGB 2017) (2017 TRS Rate Order); Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities; Structure and Practices of the Video Relay Service Program, CG Docket Nos. 03-123 and 10-51, Order, 33 FCC Rcd 6300, 6304, para. 11 (CGB 2018) (2018 TRS Rate Order); 2019 TRS Rate Order, 34 FCC Rcd at 5178-79, para. 16.</i>

Sikich CPA LLC

INFO Item: Audit Released August 2025
Attachment F
10/27/2025

Attachment F

HC2023LR030

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

NEHALEM TELECOMMUNICATIONS INC.

**LIMITED SCOPE PERFORMANCE AUDIT ON COMPLIANCE WITH THE FEDERAL
UNIVERSAL SERVICE FUND HIGH COST SUPPORT MECHANISM RULES
USAC AUDIT No. HC2023LR030**



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Executive Summary

May 12, 2025

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “we”) was engaged to conduct a limited scope performance audit on the compliance of Nehalem Telecommunications Inc. (Beneficiary), study area code **532387**, for disbursements made from the federal Universal High Cost (HC) Program during the year ended December 31, 2021. Sikich conducted the audit field work from March 24, 2023, to May 12, 2025.

We conducted the limited scope 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 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 limited scope performance audit were to evaluate the Beneficiary’s compliance with the regulations and orders governing the federal Universal Service HC Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission’s (FCC’s) Orders governing the Universal Service Support for the HC Program relative to disbursements (collectively, FCC Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. Sikich’s responsibility is to evaluate the Beneficiary’s compliance with FCC Rules based on our limited scope performance audit.

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

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

condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period.

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

Audit Results and Recovery Action

Based on the test work performed, our audit disclosed that the Beneficiary did not comply with FCC Rules, as set forth in the nine detailed audit findings discussed below.

Audit Results	Monetary Effect			Recommended Recovery ²
	CAF BLS	CAF ICC	Total ³	
Finding No. 1: 47 C.F.R. § 54.320(b) (2019) and 47 C.F.R. § 64.901 (2019) – Inadequate/Lack of Documentation: Continuous Property Records, Assets, and Expenses. The Beneficiary did not have adequate documentation to support records included in its Continuous Property Records (CPRs). Additionally, the Beneficiary either did not provide or did not maintain adequate documentation to support the sampled assets and expenses.	\$26,174	\$0	\$26,174	\$26,174
Finding No. 2: 47 C.F.R. § 54.1305 (2019), 47 C.F.R. § 54.1306 (2019), 47 C.F.R. § 54.903(a)(4) (2019) and 47 C.F.R. § 69.501 (2019) – Inaccurate Reporting – Part 36 and Part 69 Cost Study Balances. The Beneficiary did not accurately report Part 36 and Part 69 cost study balances as a result of revisions to its High Cost Loop (HCL) data.	(\$28,766)	\$0	(\$28,766)	\$0
Finding No. 3: 47 C.F.R. § 32.2000(g)(2) (2019) – Inaccurate Depreciation Expense	(\$6,693)	\$0	(\$6,693)	\$0

² The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

³ *Id.*

Audit Results	Monetary Effect			Recommended Recovery ²
	CAF BLS	CAF ICC	Total ³	
and Accumulated Depreciation Calculation. The Beneficiary did not record depreciation expense for April 2019 and did not use the required monthly average asset balance method to calculate its monthly depreciation expense.				
Finding No. 4: 47 C.F.R. § 54.903(a)(3) and 47 C.F.R. § 54.903(a)(4) (2019) – Inaccurate Reporting of Average Monthly Broadband-Only Loops. The Beneficiary did not accurately calculate the average monthly broadband-only loop count that it reported on the FCC Form 509.	\$3,823	\$0	\$3,823	\$3,823
Finding No. 5: 47 C.F.R. § 36.121(b)(c)(d) (2019), 47 C.F.R. § 36.151 (2019), 47 C.F.R. § 64.901(b) and 47 § 36.154(a) (2019) – Inaccurate Reporting: Central Office Equipment (COE) and Cable Wire and Facilities (CWF). The Beneficiary’s COE common cost distribution included incorrect counts for its Digital Subscriber Line (DSL), Consumer Broadband-Only Loop (CBOL), and Wideband. Further, the Beneficiary did not update its CWF route allocation to account for network upgrades.	\$3,037	\$0	\$3,037	\$3,037
Finding No. 6: 47 C.F.R. § 54.7(a) (2019), FCC 15-133 (2015) and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included 13 expense transactions in its HC Program filing that were not related to the provision, maintenance, and upgrade of telecommunications facilities. In addition, the Beneficiary’s HC Program filing included Caller Name (CNAM) expenses that are not considered to be related to the provision, maintenance, and upgrade of telecommunications facilities.	\$1,684	\$0	\$1,684	\$1,684

Audit Results	Monetary Effect			Recommended Recovery ²
	CAF BLS	CAF ICC	Total ³	
Finding No. 7: 47 C.F.R. § 32.6110(b) (2019) – Improper Distribution of Overhead Expenses. The Beneficiary used direct labor dollars instead of direct labor hours as required when distributing its overhead expenses.	(\$1,069)	\$0	(\$1,069)	\$0
Finding No. 8: 47 C.F.R. § 32.2(a)(b) (2019) – Misclassification of Part 32 Accounts: Expenses. The Beneficiary misclassified three expense transactions to Part 32, Account 6720, <i>General and Administrative</i> .	\$852	\$0	\$852	\$852
Finding No. 9: 47 C.F.R. § 54.320(b) (2019), 47 C.F.R. § 32.27 (2019) and 47 C.F.R. § 64.901 (2019) – Inadequate Documentation and Inaccurate Reporting: Related Party Transactions. The Beneficiary did not (1) maintain adequate documentation to support the sampled related-party transactions, (2) utilize current balances to allocate costs, and (3) maintain adequate documentation to support the allocation percentages applied.	\$874	\$0	\$874	\$874
Total Net Monetary Effect	<u>(\$84)</u>	<u>\$0</u>	<u>(\$84)</u>	<u>\$36,444</u>

USAC Management Response

USAC management concurs with the audit results for SAC 532387, for High Cost Program support. The Beneficiary must implement the 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.

Finding	CAF BLS (A)	CAF ICC (B)	USAC Recovery Action (A)+(B)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding No. 1	\$26,174	\$0	\$26,174	N/A
Finding No. 2	(\$28,766)	\$0	(\$28,766)	N/A
Finding No. 3	(\$6,693)	\$0	(\$6,693)	N/A

Finding No. 4	\$3,823	\$0	\$3,823	N/A
Finding No. 5	\$3,037	\$0	\$3,037	N/A
Finding No. 6	\$1,684	\$0	\$1,684	N/A
Finding No. 7	(\$1,069)	\$0	(\$1,069)	N/A
Finding No. 8	\$852	\$0	\$852	N/A
Finding No.9	\$874	\$0	\$874	N/A
Total	<u>(\$84)</u>	<u>\$0</u>	<u>(\$84)</u>	<u>N/A</u>

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

Nehalem Telecommunications, Inc. (NTI or the Beneficiary) is a wholly owned subsidiary of Rural Telephone Company (RTC), which is a wholly owned subsidiary of Martell Enterprises, Inc. The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications exchange, local access, long-distance, and internet services. The Beneficiary is located in Oregon and had more than 1,500 subscribers as of December 31, 2019. In addition to Part 64 regulated services, the Beneficiary provides internet and wireless telephone services which are regulated differently than local exchange services but are specifically considered non-regulated as it pertains to the Part 64 regulated/non-regulated accounting.

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 collection and disbursement of USF money through four USF programs: Lifeline, E-Rate, HC, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

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

- **High Cost Loop (HCL) Support:** HCL is available for rural companies operating in service areas where the cost to provide service exceeds 115 percent of the national average cost per loop.
- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (ICC) Support:** CAF ICC support is available to

rate-of-return ILECs to assist them in offsetting 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 Program Year (PY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The base period revenue for rate-of-return carriers is reduced by 5 percent in each year beginning with the first year of the reform. A rate-of-return carrier's eligible recovery is equal to the adjusted base period revenue for the year in question, less—for the relevant year of the transition—the sum of: (1) projected terminating intrastate switched access revenue, (2) projected interstate switched access revenue, and (3) projected net reciprocal compensation revenue.

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

Objectives, Scope, and Procedures

Objective

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

Scope

The chart below summarizes the HC Program support included in the audit scope.⁴

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2019	2021	\$314,448
ICC	2018–2020	2021	<u>\$234,342</u>
Total			<u>\$548,790</u>

Procedures

We performed the following procedures:

A. High Cost Program Support Amount

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

⁴ The Beneficiary did not receive High Cost Loop (HCL) support for the 2021 disbursement period.

B. High Cost Program Process

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

C. Fixed Assets

We obtained and examined the Beneficiary's CPR 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 (CWF) equipment balances. We also examined documentation and conducted a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts.

D. Operating Expenses

We obtained and examined 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 used to calculate HC 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 No. 1: 47 C.F.R. § 54.320(b) (2019) and 47 C.F.R. § 64.901 (2019) – Inadequate/Lack of Documentation: Continuous Property Records, Assets, and Expenses

Condition

We obtained and examined the Beneficiary's general ledger, CPRs, and cost study balances for the filing period ending on December 31, 2019, to determine whether the Beneficiary properly and accurately reported its asset and expense balances for HC Program purposes. We selected a non-statistical sample of assets and expenses for testing based on high dollar value and proportional to the investment and expense impact on High Cost support. Specifically, we tested:

- 7 asset transactions totaling \$104,706 selected for testing in accordance with HC Program rules.
- 96 expense transactions totaling \$92,569 selected as a result of reviewing the general ledger for unallowable expenses, as well as an additional 6 expense transactions totaling \$44,128 that were selected for testing in accordance with HC Program rules.

We reviewed the Beneficiary's CPRs and supporting documentation, such as motor vehicle purchase agreements, vendor invoices, and payroll labor distribution report, and noted the following:

Inadequate Documentation of CPRs

We examined the Beneficiary's CPRs for Land and Support assets (Account 2110), Central Office assets (Accounts 2210 and 2230), and CWF assets (Account 2410) and identified 15 records with a description of "Beg bal for purchase of NTC," (NTC refers to the Beneficiary.). All records with this description entered service in 2004, the year in which RTC acquired the Beneficiary. These records were carry-forward balances from 2004 to the filing period ending on December 31, 2019, and itemized details of each record were not available. However, a tax assessment on the Beneficiary was done by Oregon's Department of Revenue subsequent to the acquisition of the local exchange for the 2007-2008 tax year based on 2006 financials.

Utilizing the tax assessment, we did a comparison of the property records with no itemized details to the tax valuation. The asset activity after December 31, 2006, was removed from the CPR as the valuation was done using 2006 financial statements. We calculated a variance of \$735,772 to reflect the total unsupported balance of property records.

We have identified the balances for the 15 records in the table below:

CPR Account	Unsupported CPR Amount (A)	Amount Already Removed in Study (B) ⁵	Remainder of CPR Amount Unsupported (A-B)
Land (Account 2110.10)	\$1,758	\$1	\$1,757
Buildings (Account 2110.20)	\$28,363	\$20	\$28,343
Furniture & Office Equipment (Account 2110.30)	\$1,588	\$1	\$1,587
Electronic Office Equipment (Account 2110.32)	\$10,119	\$7	\$10,112
Other Work Equipment (Account 2110.40)	\$45,146	\$0	\$45,146
Other Communication Equipment (Account 2110.50)	\$2,488	\$0	\$2,488
Central Office Switching Equipment (Account 2210.10)	\$170,926	\$18,560 ⁶	\$152,366
Central Office Transmission Equipment (Account 2230.10)	\$89,110	\$0	\$89,110
Poles (Account 2410.00)	\$2,174	\$0	\$2,174
Aerial Cable (Account 2410.20)	\$2,746	\$0	\$2,746
Aerial Wire (Account 2410.30)	\$450	\$0	\$450
Buried Cable (Account 2410.40)	\$259,914	\$0	\$259,914
Underground Cable (Account 2410.60)	\$4,062	\$0	\$4,062
Underground Fiber (Account 2410.65)	\$43,899	\$0	\$43,899
Conduit (Account 2410.70)	\$73,029	\$0	\$73,029
Total	<u>\$735,772</u>	<u>\$18,589</u>	<u>\$717,183</u>

Inadequate Documentation of CWF Assets – Account 2410

In addition to examining the supporting documentation for the samples to determine if the Beneficiary could substantiate the value of the sampled assets, we validated at least 50 percent of the total workorder value applicable to the sampled assets. As a result, we found that for six of

⁵ The amounts identified as already removed in cost study are a result of a nonregulated factor developed and applied to the accounts as Part 64 adjustments or separation study adjustments in the Beneficiary's Part 64 Cost Study as of December 31, 2019.

⁶ The amount of \$18,560 is presented under this finding as already removed because the amount was removed as separation study adjustment #1 in the Beneficiary's Part 64 Cost Study as of December 31, 2019.

the seven samples, the Beneficiary was not able to provide adequate documentation to substantiate the value of the asset, as follows:

- **Asset Samples 2, 3, 6, and 7:**⁷ The Beneficiary was unable to provide supporting invoices to verify the material cost of a \$2,035 inventory item included in the work order. The Beneficiary stated, “We no longer have those A/P invoices. Our retention period is 7 years.”⁸ Additionally, the Beneficiary was unable to provide the supporting rental agreement for \$674 for the housing of RTC’s construction crew.⁹ Lastly, the Beneficiary was unable to provide supporting overhead clearing reports for total overhead cost of \$27,053 from RTC included in the workorder. The Beneficiary stated that RTC creates a work order on its side when it is involved in the build-out of the Beneficiary’s project and that “once a work order is closed, it is out of the spread calculation. I am unable to recreate this spread calculation.”¹⁰
- **Asset Sample 4:** The Beneficiary was unable to provide supporting invoices to verify the material cost of a \$2,789 inventory item included in the work order. The Beneficiary stated, “This inventory item Fiber UO72 was purchased on 04/09. We no longer have these A/P invoices.”¹¹
- **Asset Sample 5:** The Beneficiary was unable to provide supporting overhead clearing reports for the benefit spread of \$4,531 from RTC on the Beneficiary’s work order. The Beneficiary stated that, “because the work order is closed, an attempt to recreate the benefit spread will not necessarily be accurate, as the work order is out of the mix.”¹²

Inadequate Documentation of Expenses

We inspected the supporting documentation provided for the selected expense samples to determine whether the Beneficiary could substantiate the value of the expenses and found that the Beneficiary was unable to provide adequate documentation for 12¹³ of the 102 expenses sampled, as follows:

- The Beneficiary was unable to provide any supporting receipts/invoices for a portion of the expense total for four expense samples recorded in Part 32, Account 6720, *General and Administrative* (sample nos. 19, 21, 24, and 32). The unsupported portion totaled \$5,731. Additionally, for three samples recorded in Part 32, Account 6720, *General and Administrative* (sample nos. 12, 20, and 31), we requested that the Beneficiary assist us in reconciling the value for these transactions to the statements by providing purchase receipts; however, the Beneficiary did not respond.¹⁴ The Beneficiary reported a total

⁷ Asset samples 2, 3, 6, and 7 are in the same work order details.

⁸ Statement found in the Beneficiary’s response to inquiry #67a on the Audit Inquiries Listing.

⁹ *Id.*

¹⁰ Statement found in the supporting documentation provided for the transaction.

¹¹ *Id.*

¹² Statement found in the Beneficiary’s response to inquiry #67d on the Audit Inquiries Listing.

¹³ 7 samples in Part 32 Account 6720, General and Administrative and 5 samples in Account 6110, Network Support.

¹⁴ Specifically, the Beneficiary did not respond to inquiry #71c on the Audit Inquiries Listing.

value of \$1,576 for the three samples. Because we were unable to reconcile the sample amount that the Beneficiary reported in its general ledger, we determined that the value of the samples to be inadequately supported.

- The Beneficiary did not provide any receipts or invoices to support a portion of the total value for 5 expense samples recorded in Part 32, Account 6110, *Network Support* (sample nos. 37, 38, 39, 43, and 44). The unsupported value for the 5 expense samples totaled to \$768. However, under the Beneficiary's overhead allocation process for Part 32, Account 6110, the Beneficiary credits the full amount of Account 6110 to construction and/or plant-specific expense accounts on a monthly basis. Because this clearing process impacted the account in question, we recalculated the clearing spread to incorporate the values for the exceptions noted¹⁵ and determine the adjustment to the different construction and/or plant-specific expense accounts to which the Beneficiary spread the values for the exceptions noted.

Lack of Documentation of Expenses

The Beneficiary did not provide documentation to support five of the 102 expense samples. Specifically, the Beneficiary did not provide support for:

- Three of the five expense samples recorded in Part 32, Account 6720, *General and Administrative* (sample nos. 17, 26, and 27). The unsupported samples totaled \$1,743.
- One of the five expense samples recorded in Part 32, Account 6230, *Central Office Transmission* (sample no. 47). The unsupported sample totaled \$71.
- One of the five expense samples recorded in Part 32, Account 6610, *Marketing* (sample no. 36). The unsupported sample totaled \$350.

Because the Beneficiary has continuously rolled forward asset purchase balances without detailed records since 2004, was unable to provide supporting documentation to substantiate the asset value it reported for HC Program purposes, and because we identified inadequacies in—and/or lack of documentation for—our asset and expense samples, we concluded that the cost study balances the Beneficiary reported for HC Program purposes were unsupported. We have summarized the effect of the exceptions in the tables below.

¹⁵ In this report, we identify an “exception” when, based on a review of the Beneficiary-provided evidence/documentation, we identify a discrepancy or deviation from the expected result. An exception results in a finding based on the materiality of the exception.

Recalculation of Part 36 Balances ¹⁶			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Telecommunications Plant Under Construction (Account 2003)	\$114,224	\$114,183	\$41
Land and Support Assets (Account 2110)	\$1,390,353	\$1,300,921	\$89,432
COE Switching (Account 2210)	\$1,544,041	\$1,391,675	\$152,366
COE Transmission (Account 2230)	\$2,007,089	\$1,917,979	\$89,110
CWF (Account 2410)	\$5,469,565	\$5,046,208	\$423,357
Land and Support Accumulated Depreciation (Account 3100-2110)	\$1,257,252	\$1,176,485	\$80,767
COE Switching Accumulated Depreciation (Account 3100-2210)	\$1,532,435	\$1,381,339	\$151,096
COE Transmission Accumulated Depreciation (Account 3100-2230)	\$1,984,261	\$1,896,958	\$87,303
CWF Accumulated Depreciation (Account 3100-2410)	\$3,999,997	\$3,687,104	\$312,893
Land and Support Deferred Tax (Account 4340-2110)	(\$30,577)	(\$28,814)	\$1,763
Deferred Taxes COE Switching (Account 4340-2210)	\$3,991	\$3,579	\$412
Deferred Taxes COE Transmission (Account 4340-2230)	(\$1,641)	(\$1,931)	(\$290)
CWF Deferred Taxes (Account 4340-2410)	\$440,216	\$407,096	\$33,120
Land and Support Depreciation Expense (Account 6560-2110)	\$18,638	\$17,424	\$1,214

¹⁶ Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

Recalculation of Part 36 Balances ¹⁶			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
COE Switching Depreciation Expense (Account 6560-2210)	\$1,106	\$997	\$109
COE Transmission Depreciation Expense (Account 6560-2230)	\$33,991	\$32,510	\$1,481
CWF Depreciation Expense (Account 6560- 2410)	\$88,863	\$81,988	\$6,875
General Support Expense (Account 6120)	\$124,972	\$116,714	\$8,258
COE Switching Expense (Account 6210)	\$87,534	\$78,896	\$8,638
COE Transmission Expense (Account 6230)	\$136,063	\$123,791	\$12,272
CWF Expense (Account 6410)	\$261,957	\$243,460	\$18,497
Marketing Expense (Account 6610)	\$7,902	\$7,678	\$224
General and Administrative Expense (Account 6720)	\$436,267	\$427,217	\$9,050

Recalculation of Central Office Switching Categorization ¹⁷			
Category	As Reported Part 36 Balances (A)	Sikich Audited Part 36 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Category 3 – Local Switching	<u>\$1,544,041</u>	<u>\$1,391,675</u>	<u>\$152,366</u>

¹⁷ Reported balances for Central Office Switching Categorization for 2021 HC Program disbursements are only reported as of December 31, 2019.

Recalculation of Central Office Transmission Categorization ¹⁸			
Category	As Reported Part 36 Balances (A)	Sikich Audited Part 36 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Category 4.11 – Wideband-Line	\$6,627	\$6,333	\$294
Category 4.11 – Direct Assignment	\$615,893	\$588,549	\$27,344
Category 4.13 – Joint MSG	\$1,254,148	\$1,198,467	\$55,681
Category 4.13 – PL & Local	\$4,436	\$4,239	\$197
Category 4.22 – Interexchange PL	\$47,694	\$45,576	\$2,118
Category 4.23 – All Other Joint MSG	\$77,347	\$73,913	\$3,434
Category 4.23 – PL & Local	<u>\$943</u>	<u>\$901</u>	<u>\$42</u>
Total	<u>\$2,007,088</u>	<u>\$1,917,978</u>	<u>\$89,110</u>

¹⁸ Reported balances for Central Office Transmission Categorization for 2021 HC Program disbursements are only reported as of December 31, 2019.

Recalculation of Cable and Wire Facilities Categorization ¹⁹			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (Understatement)/ (A-B)
Category 1 – 1.1 Intra PL & WATS	\$16,794	\$15,494	\$1,300
Category 1 – 1.3 Jointly Used	\$4,748,448	\$4,380,907	\$367,541
Category 2 – WB Line (non-DSL)	\$25,142	\$23,196	\$1,946
Category 2 – WB Data Only Loop	\$262,950	\$242,598	\$20,352
Category 3 - WB PL	\$164,594	\$151,854	\$12,740
Category 3 – Joint MSG x/WB	\$248,605	\$229,362	\$19,243
Category 3 – PL & Local x/WB	<u>\$3,032</u>	<u>\$2,797</u>	<u>\$235</u>
Total	<u>\$5,469,565</u>	<u>\$5,046,208</u>	<u>\$423,357</u>

Cause

The Beneficiary did not have adequate data retention procedures in place to ensure it properly retained sufficient records to demonstrate that it recorded its assets in the proper amount and to the proper general ledger account for HC Program purposes for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules.²⁰ Specifically, it did not have adequate data retention procedures in place with regard to balances carried over from a company that it acquired. The acquired company recorded the value of the assets based on the book value of the company from which it acquired the assets and was therefore only able to provide the beginning balances, with no further information available. With regard to the asset and expense samples for which the Beneficiary was unable to provide documentation, the Beneficiary stated that “the company misplaced expenditure detail for the items selected.”²¹

Effect

We calculated the monetary effect to the Beneficiary’s HC Program filing by adjusting the CAF BLS algorithm to subtract the overstated account balances and add the understated account balances—as stated in the “Recalculation of Part 36 Balances,” “Recalculation of Central Office Switching Categorization,” “Recalculation of Central Office Transmission Categorization,” and “Recalculation of Cable and Wire Facilities Categorization” tables above—for the period ending December 31, 2019. We have summarized the impact of this finding relative to disbursements

¹⁹ Reported balances for Cable Wire and Facilities Categorization for 2021 HC Program disbursements are only reported as of December 31, 2019.

²⁰ See 47 C.F.R § 54.320(b) (2019).

²¹ Per the Beneficiary’s exception summary response, received on July 1, 2024.

made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$26,174
CAF ICC	\$0
Total	<u>\$26,174</u>

Recommendation

We recommend:

1. USAC Management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary retains supporting source documentation for records that it includes in its CPRs, transactions that it reports in its workorders, and expenses recorded on the general ledger to demonstrate that it recorded transactions in its CPRs, work orders, and general ledger at the proper amount.
3. The Beneficiary maintain documentation to demonstrate that it is in compliance with FCC Rules.

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 to the finding and the recalculations of the monetary effect of this finding.

Sikich Response

Our position on the finding has not changed.

Finding No. 2: 47 C.F.R. § 54.1305 (2019), 47 C.F.R. § 54.1306 (2019), 47 C.F.R. § 54.903(a)(4) (2019) and 47 C.F.R. § 69.501 (2019) – Inaccurate Reporting – Part 36 and Part 69 Cost Study Balances

Condition

We obtained and examined the Beneficiary's general ledger, reported cost study balances, and cost study adjustments for the filing period ending on December 31, 2019, to determine whether the Beneficiary accurately reported its Part 64, Part 36, and Part 69 cost study balances for HC Program purposes. To verify the accuracy of the reported cost study balances, we:

1. Reconciled the book balance that the Beneficiary reported in its Part 64 cost study to the balance recorded in the general ledger.

2. Tied individual cost study adjustments to the reported adjustment column in the Part 64 cost study.
3. Recalculated the Beneficiary's Part 64 cost study balance by adding or subtracting the cost study adjustments to/from the book balance.
4. Recalculated the Beneficiary's Part 36 cost study balances based on the recalculated Part 64 cost study balances. We calculated the average balance for asset accounts (i.e., [prior-year Part 64 cost study balance + current-year Part 64 cost study balance]/2) and used the Part 64 cost study ending balance for expense accounts. The Part 36 cost study balances carry forward to become the Part 69 cost study balances.

We noted variances in the following plant asset accounts and expense accounts of the Part 64 cost study balances used to calculate the company's reported Part 36 cost study balances, which in turn impacted the reported Part 69 cost study balances.

Plant Asset Accounts					
Account	Prior Year Ending Balance per Part 64 Reported (A)	Ending Balance per Part 64 Reported (B)	Average [(A)+(B)]/2 = (C)	Part 36 Reported Data (D)	Variance (C) - (D)
Land and Support Assets (Account 2110)	\$1,392,767	\$1,412,627	\$1,402,697	\$1,390,353	\$12,344
Land and Support Accumulated Depreciation (Account 3100-2110)	\$1,259,241	\$1,275,759	\$1,267,500	\$1,257,252	\$10,248
Land and Support Deferred Tax (Account 4340-2110)	(\$33,702)	(\$27,842)	(\$30,772)	(\$30,577)	(\$195)

Expense Accounts			
Account	Ending Balance per Part 64 Reported (B)	Part 36 Reported Data (D)	Variance (B) - (D)
General Support Expense (Account 6120)	\$130,442	\$124,972	\$5,470

Expense Accounts			
Account	Ending Balance per Part 64 Reported (B)	Part 36 Reported Data (D)	Variance (B) - (D)
COE Transmission Expense (Account 6230)	\$253,124	\$136,063	\$117,061
Land and Support Depreciation Expense (Account 6560-2110)	\$19,174	\$18,638	\$536

Because the Beneficiary revised its cost study balances for Part 64 but not for Parts 36 and 69, we determined that the cost study balances the Beneficiary reported for HC Program purposes were inaccurate. We summarized the effect of the variances identified in the Beneficiary's plant asset and expense accounts on the balances the Beneficiary reported for HC Program purposes in the table below.

Recalculation of Part 36 Balances ²²			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Land and Support Assets (Account 2110)	\$1,390,353	\$1,402,697	(\$12,344)
Land and Support Accumulated Depreciation (Account 3100-2110)	\$1,257,252	\$1,267,500	(\$10,248)
Land and Support Deferred Tax (Account 4340-2110)	(\$30,577)	(\$30,772)	(\$195)
General Support Expense (Account 6120)	\$124,972	\$130,442	(\$5,470)
COE Transmission Expense (Account 6230)	\$136,063	\$253,124	(\$117,061)
Land and Support Depreciation Expense (Account 6560-2110)	\$18,638	\$19,174	(\$536)

Cause

The Beneficiary's system for collecting, reporting, and monitoring data did not adequately ensure that the Beneficiary reported the correct amounts for HC Program purposes. Specifically,

²² Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

the Beneficiary did not update all applicable study balances reported to NECA for HC Program purposes because NECA only required the Beneficiary to submit an updated filing for HCL and not CAF BLS. The Beneficiary had provided the National Exchange Carrier Association (NECA) with a revised version of its Part 64 cost study balances for the filing period ending on December 31, 2019; however, it was not required to provide revised cost study balances for Part 36 or Part 69.

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by applying the following adjustments to the CAF BLS algorithm and by adding the understated balances for the filing period ending December 31, 2019, as follows: \$12,344 to Account 2110, \$10,248 to Account 3100-2110, \$195 to Account 4340-2110, \$5,470 to Account 6120, \$117,061 to Account 6230, and \$536 to Account 6560-2110. We summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	(\$28,766)
CAF ICC	\$0
Total	<u>(\$28,766)²³</u>

Recommendation

We recommend:

1. The Beneficiary implements a system that enables it to accurately report cost study balances for HC Program purposes. Specifically, the Beneficiary should develop and implement policies, procedures, and processes to ensure that it accurately reports Part 64 cost study balances and uses the correct amounts to calculate the subsequent Part 36 and Part 69 balances reported for HC Program purposes.

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery. The company will continue to submit revisions to all filings upon review.

Sikich Response

Our position to this finding has not changed.

²³ The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

Finding No. 3: 47 C.F.R. § 32.2000(g)(2) (2019) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

Condition

We obtained and examined the Beneficiary's depreciation schedule, as well as its regulated property, plant, and equipment beginning and ending balances by asset account group; accumulated depreciation balances by asset account group; and depreciation expense amounts by asset account group for the filing period ending on December 31, 2019, to determine whether the Beneficiary properly computed and reported its depreciation expense and accumulated depreciation accurately for HC Program purposes.

We examined the Beneficiary's depreciation schedule and general ledger, as well as the Beneficiary's response to the inquiry in our Background Questionnaire regarding its process for calculating depreciation expense, and made the following observations:

- Based on our review of the Beneficiary's general ledger activity for the filing period ending on December 31, 2019, we determined that the Beneficiary did not record depreciation expense for the month of April 2019. In response to our inquiry, the Beneficiary stated, "For depreciation expense missed, an audit adjustment would be made in response to our exception noted."²⁴
- In its response to our Background Questionnaire inquiry regarding whether the Beneficiary used the balances at the beginning and end of the month to calculate depreciation, the Beneficiary responded "Yes." However, we recalculated the Beneficiary's depreciation expense for the sample month of December 2019 and determined that the Beneficiary only used the beginning balance when calculating its depreciation.

The Beneficiary stated that it may calculate depreciation for specific assets, rather than calculating depreciation based on the total balance. Specifically, when the Beneficiary began using account software that included fully depreciated assets to perform its depreciation calculation, the Beneficiary included the fully depreciated assets in a separate line item labeled "salvage." For example, the Beneficiary noted that it may have vehicles from 1997 that have exceeded their useful lives and are therefore no longer subject to depreciation but are still in use. The Beneficiary stated that, as a result of the group asset methodology, some items depreciate much faster than their actual useful life; as a result, the assets are fully depreciated but remain in service. The Beneficiary noted that these assets do not impact its financials or the cost study.²⁵

As a result of the observations identified above, we recalculated the Beneficiary's depreciation expense for the entire filing period ending on December 31, 2019. Our recalculation resulted in

²⁴ Statement found in the Beneficiary's response to inquiry #27b on the Audit Inquiries Listing.

²⁵ Statement found in the Beneficiary's response to inquiry #27c on the Audit Inquiries Listing.

the following adjustments to the account balances the Beneficiary reported for HC Program purposes.

Recalculation of Part 36 Balances ²⁶			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Over/(Under) Reported (A-B)
Land and Support Accumulated Depreciation (Account 3100-2110)	\$1,257,252	\$1,295,411	(\$38,159)
COE Switching Accumulated Depreciation (Account 3100-2210)	\$1,532,435	\$1,548,321	(\$15,886)
COE Transmission Accumulated Depreciation (Account 3100-2230)	\$1,984,261	\$1,995,275	(\$11,014)
CWF Accumulated Depreciation (Account 3100-2410)	\$3,999,997	\$4,007,168	(\$7,171)
Land and Support Depreciation Expense (Account 6560-2110)	\$18,638	\$56,797	(\$38,159)
COE Switching Depreciation Expense (Account 6560-2210)	\$1,106	\$16,992	(\$15,886)
COE Transmission Depreciation Expense (Account 6560-2230)	\$33,991	\$45,005	(\$11,014)
CWF Depreciation Expense (Account 6560-2410)	\$88,863	\$96,034	(\$7,171)

Cause

The Beneficiary’s system for collecting, reporting, and monitoring data did not adequately ensure that the Beneficiary correctly calculated the depreciation expense and accumulated depreciation reported for HC Program purposes. Per 47 C.F.R. § 32.2000(g)(2)(iii), the “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.”²⁷ The Beneficiary stated that “The company has calculated the depreciation expense in the system based on a segregated balance within a specific plant account balance so the depreciation expense varied from the group asset calculation.”²⁸

Effect

We calculated the monetary effect to the Beneficiary’s HC Program filing by adjusting the CAF BLS algorithm to subtract the overstated account balances and add the understated account balances—as stated in the “Recalculation of Part 36 Balances” table above—for the periods

²⁶ Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

²⁷ See 47 CFR 32.2000(g)(2)(iii) (2019).

²⁸ Statement found in the Beneficiary’s exception summary response, received July 1, 2024.

ending December 31, 2019. We summarize the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	(\$6,693)
CAF ICC	\$0
Total	<u>(\$6,693)²⁹</u>

Recommendation

We recommend:

1. The Beneficiary implements a system that properly calculates depreciation expense and accumulated depreciation using the average of the monthly beginning and ending asset balances to ensure that the Beneficiary properly reports depreciation for HC Program purposes.
2. The Beneficiary implements a review process to ensure it has correctly posted monthly depreciation and accumulated depreciation entries to reflect the proper balances for HC Program purposes.
3. The Beneficiary re-file any HC Program filings in which the Beneficiary used incorrect depreciation methods, recalculating its depreciation expense and related accumulated depreciation using the average of the monthly beginning and ending asset balances.

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery.

The company has calculated the depreciation expense in the system based on a segregated balance within a specific plant account balance so the depreciation expense varied from the group asset calculation.

The company will update its depreciation expense calculation methodology to do the average monthly account balance times the monthly depreciation rate.

Sikich Response

Our position to this finding has not changed.

²⁹ The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

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

Condition

We obtained and examined the Beneficiary's FCC Form 509, NECA's EC2060-L Report³⁰ and *Calculation of the Average Monthly Broadband-Only Loops and Billing Report for Consumer Broadband-Only Loops*, to determine whether the Beneficiary accurately calculated and reported average monthly broadband-only loops for HC Program purposes.

We used the monthly counts reported in NECA's EC2060-L report—which matches the annual counts reported on the FCC Form 509—to identify the total monthly consumer broadband-only loop counts that the Beneficiary reported for the filing period ending December 31, 2019. To recalculate the Beneficiary's average monthly broadband-only loops, we examined NECA's EC2060-L Report and compared the amounts in the report to the Beneficiary's calculation of its average monthly broadband-only loops on the FCC Form 509. the Loop and Access Line report for consumer broadband-only loops.

Based on our examination, we identified the following:

- The Beneficiary's monthly count view in NECA's EC2060-L Report included the Beneficiary's total consumer broadband-only loop count starting in the month of June through December 2019, which agreed to the Beneficiary's calculation of the average monthly broadband-only loop count on reported on the FCC Form 509. However, we noted that there is a 1-month delay in the values reported in the Beneficiary's monthly view in NECA's EC2060-L Report. For example, the Consumer Broadband-Only Loop count reported in NECA's EC2060-L Report for December 2019 represents the Beneficiary's count activity for November 2019.
- The Beneficiary reported an average monthly broadband-only loop count of 69 on the FCC Form 509. The Beneficiary calculated this number by totaling the counts reported in NECA's EC2060-L Report for June 2019 through December 2019 and dividing this total by 12³¹ months reflecting count activity from May through November 2019 (erroneously excluding count activity for December 2019). The Beneficiary originally calculated its average monthly broadband-only loop count as 826 loops / 12 months = 69 loops on average.

As a result of the errors noted above, we recalculated the Beneficiary's average monthly broadband-only loop count using count activity from May through December 2019, divided by 12 months. We calculated the average as 1,010 loops / 12 months = 84 loops on average, for a total difference of 15 loops:

³⁰ NECA's EC2060-L Report provides a 24 Month View of the Beneficiary's telecommunication activities.

³¹ Methodology for calculating the Average Monthly Broadband-Only Loops requires that the reported loops be divided by 12 (representing a 12 month period) despite the actual number of months service was provided.

Average Monthly Broadband-Only Loops	For Data Period 2019
Reported on FCC Form 509	69
Recalculated by Sikich	<u>84</u>
Difference	<u>15</u>

We have summarized the calculated impact of this finding on the Beneficiary's FCC Form 509 for the filing period ending on December 31, 2019, in the following table.

Line	FCC Form 509	As Reported FCC Form 509 Filed (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
7	2019 Common Line Voice Revenue Requirement (Line 5 + Line 6)	\$369,985	\$369,985	\$0
11	2019 SLC Revenue (Line 8 + Line 9 - Line 10)	\$134,774	\$134,774	\$0
12	2019 End User ISDN Port Revenue	\$0	\$0	\$0
13	2019 Special Access Surcharge Revenue	\$0	\$0	\$0
14	2019 CAF BLS Voice ** (Line 7 - Line 11 - Line 12 - Line 13)	\$235,211	\$235,211	\$0
15	2019 Consumer Broadband-Only Loop RRQ	\$68,811	\$68,811	\$0
16	201 9 OpEx Limitation and/or FCC Exclusions##	(\$429)	(\$429)	\$0
17	2019 Consumer Broadband-Only Loop RRQ (Line 15 + Line 16)	\$68,382	\$68,382	\$0
18	Pool Administration Expense Amount (applicable to CBOL Tariff Participants Only)	\$2,684	\$2,684	\$0
19	2019 Consumer Broadband-Only Loop RRQ (Line 17 + Line 18)	\$71,066	\$71,066	\$0
20	2019 Average Monthly Broadband-Only Loops (Line 59)	69	84	(15)

Line	FCC Form 509	As Reported FCC Form 509 Filed (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
21	2019 Average Broadband-Only Revenues (Line 20 * 12 * \$42)	\$34,690	\$42,336	(\$7,646)
22	Lesser of 2019 Broadband-Only (Line 19) RRQ or Broadband-Only Revenues (Line 21)	\$34,690	\$42,336	(\$7,646)
23	2019 Average of Consumer Broadband-Only Rates (Line 59)	\$42	\$42	\$0
24	2019 Broadband-Only Revenues (Line 20 * Line 23 * 12)	\$34,690	\$42,336	(\$7,646)
25	2019 Broadband-Only Revenues (greater of Line 22 or Line 24)	\$34,690	\$42,336	(\$7,646)
26	2019 CAF BLS BROADBAND-ONLY** (Line 19 - Line 25)	\$36,376	\$28,730	\$7,646
27	2019 CONNECT AMERICA FUND BROADBAND LOOP SUPPORT (Line 7 + Line 19) - (Line 11 + Line 12 + Line 13 + Line 25)	\$271,587	\$263,941	\$7,646

Because the Beneficiary did not properly include the December 2019 consumer broadband-only loop counts for the months in 2019 in which the Beneficiary provided this service and therefore earned the associated revenue, we concluded that the Beneficiary did not accurately report its average monthly broadband-only loops, thereby impacting the 2019 CAF BLS support for HC Program purposes.

Cause

The Beneficiary did not have an adequate understanding—or system in place for—collecting, reporting, and monitoring data and therefore was unable to ensure that it accurately reported its average monthly broadband-only loops for HC Program purposes. Specifically, because this was the first year in which the Beneficiary began providing broadband-only service, it misunderstood how to identify the loop count period once it processed the billings.³²

³² Statement found in the Beneficiary's exception summary response, received July 1, 2024.

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by adding in the understated Broadband-Only Revenue balance of \$7,646 to the CAF BLS algorithm for the filing period ending December 31, 2019. We have summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$3,823
CAF ICC	\$0
Total	<u>\$3,823³³</u>

Recommendation

We recommend:

1. USAC Management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary implements an adequate system to ensure that it reports accurate data for HC Program purposes. Specifically, we recommend that the Beneficiary take into consideration that data contained in NECA reports lags by one month and that the Beneficiary should calculate its average monthly broadband-only loop count using the actual data for each month.

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery.

The issue occurred due to the loop count process including the timing of the billing for services thus a customer/loop count that is derived from the billing process. This was also the first year the company began providing broadband only service so there was a misunderstanding of the loop count period application upon billing being processed.

The company will perform a further examination of the timing of the service provided versus the count and will update the prior months loop with accurate and up to date counts for the period which the customer count applies.

Sikich Response

Our position to this finding has not changed.

³³ The monetary effect listed only represents disbursements during calendar year 2021. We also identified at least \$3,823 in improper disbursements that the Beneficiary made during prior and subsequent periods. The Beneficiary may have overstated additional amounts in prior periods as a result of the same error.

Finding No. 5: 47 C.F.R. § 36.121(b)(c)(d) (2019), 47 C.F.R. § 36.151 (2019), 47 C.F.R. § 64.901(b) and 47 § 36.154(a) (2019) – Inaccurate Reporting: Central Office Equipment (COE) and Cable Wire and Facilities (CWF)

Condition

We obtained and examined the Beneficiary's COE common distribution for the filing period ending on December 31, 2019, to determine whether the separations for COE in categories inclusive of equipment not assigned to a specific category (e.g., common power equipment) were done properly and accurately reported for HC Program purposes. Further, we obtained and examined the Beneficiary's CWF route allocation for the period ending on December 31, 2019, to determine whether the route investment costs were assigned to the proper category and accurately reported for HC Program purposes.

COE Common Distribution

We reviewed the supporting documentation for the Beneficiary's common distribution of its COE assets and determined the Beneficiary used incorrect data to calculate its COE categorization for Category 4.13 as noted below:

- **Incorrect DSL Count Error:** Per inspection of documentation received, we identified that of the total count used for DSL on the Beneficiary's COE common distribution was incorrect. The carrier used a total DSL count of 906, however what was reported as part of Part 64 cost study work papers, specifically the Loops, Terms, and Circuit Miles (LTM) section was 1,081 = 897 (voice/data) + 184 (CBOL) for the filing period ending on December 31, 2019. We therefore updated the allocation and recalculated the Beneficiary's COE categorization utilizing a total DSL count of 1,081 instead of 906.
- **Incorrect CBOL Count.** We noted that the Beneficiary used an incorrect total CBOL count when calculating its COE common distribution. Specifically, the Beneficiary used a total CBOL count of 181 when calculating the COE common distribution; however, this number reflects the November 2019 count, rather than the December 2019 count. In its Part 64 cost study workpapers—specifically, in the LTM section—for the filing period ending on December 31, 2019, the Beneficiary reported a December 2019 CBOL count of 184. We therefore recalculated the Beneficiary's COE categorization using a total CBOL count of 184, rather than 181.
- **Incorrect Interstate Wideband Private Line(PL) – ETS Count.** We noted that the Interstate Wideband PL – ETS count the Beneficiary reported on its wideband allocation, which it used to calculate its COE common distribution, did not agree with the count the Beneficiary reported on its Part 64 cost study workpapers. The Beneficiary used an Interstate Wideband PL – ETS count of 1 on its wideband allocation; however, it reported a count of 0 on its Part 64 cost study workpapers—specifically, the LTM section—for the filing period ending on December 31, 2019. We therefore noted an error with regard to the Beneficiary not reporting the wideband circuit count in their Part 64 Cost Study

submission; however, we did not revise the COE common distribution because the Beneficiary had already included the correct count in its wideband allocation.

We revised the Beneficiary's COE common distribution based on the errors we noted in the supporting documentation for the Beneficiary's filing period ending on December 31, 2019. As a result of these changes, we updated the total Category 4.13 balance reported for HC Program purposes under Part 32, Account 2230, *Central Office Transmission*. We have summarized the changes in the table below.

Recalculation of Central Office Transmission Categorization³⁴			
Category	As Reported Part 36 Balances (A)	Sikich Audited Part 36 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Category 4.11 – Wideband-Line	\$6,627	\$6,597	\$30
Category 4.11 – Direct Assignment	\$615,893	\$613,092	\$2,801
Category 4.13 – Joint MSG	\$1,254,148	\$1,256,969	(\$2,821)
Category 4.13 – PL & Local	\$4,436	\$4,446	(\$10)
Category 4.22 – Interexchange PL	\$47,694	\$47,694	\$0
Category 4.23 – All Other Joint MSG	\$77,347	\$77,347	\$0
Category 4.23 – PL & Local	<u>\$943</u>	<u>\$943</u>	<u>\$0</u>
Total	<u>\$2,007,088</u>	<u>\$2,007,088</u>	<u>\$0</u>

CWF Route Allocation

We verified that the Beneficiary utilized the residual method to categorize its Category 1 CWF assets. Under the residual method, the Beneficiary identifies all Category 2 through 4 interexchange CWF assets and deducts these assets from the total CWF balance to arrive at the Category 1 CWF balance.

Upon comparison of the Beneficiary's CWF route allocation to its network diagram, we identified the following errors:

1. To verify the route information the Beneficiary reported on its CWF route allocation, we compared the CWF route allocation to the Beneficiary's network diagram. The Beneficiary's CWF route allocation reported two fiber routes, as follows:

Route Reference	Fiber Pair	Length in Feet
Route 1	48	38,285

³⁴ Reported balances for Central Office Transmission Categorization for 2021 HC Program disbursements are only reported as of December 31, 2019.

Route Reference	Fiber Pair	Length in Feet
Route 2	48	46,371

When we requested the Beneficiary's network diagram to verify the CWF route allocation for Routes 1 and 2, the Beneficiary shared that 48 fiber was replaced with 72 fiber in 2017 - 2018.³⁵ The network diagram was therefore revised with the updated fiber types and footages as follows:

Route Reference	Revised Fiber Pair	Revised Length in Feet
Route 1	72	20,340
Route 1	48	22,412
Route 2	72	6,588
Route 2	48	29,839

2. As a result of the issue identified in No. 1 above, we revised the Part 32 accounts as follows:

- (a) Based on the revised CWF route allocation, we calculated the following change to the Beneficiary's Part 32, Account 2410 for CWF assets:

Account	As Reported for Part 64 (A)	Sikich Calculated Part 64 Balance (B)	Variance Overstatement/ (Understatement) (A-B)
CWF (Account 2410)	\$5,472,304	\$5,411,117	\$61,187

- (b) Based on the revised CWF route allocation, we updated cost separation study adjustment 5 for the removal on nonregulated lease fiber. This revision caused the following changes to the Beneficiary's original adjustments in the Part 64 cost study workpapers for the filing period ending on December 31, 2019:

³⁵ Statement found in the Beneficiary's response to inquiry #29a on the Audit Inquiries Listing.

Account	As Reported Separation Study Adjustment 5 (A)	Sikich Calculated Separation Study Adjustment 5 (B)	Variance Overstatement/ (Understatement) (A-B)
CWF (Account 2410)	(\$42,012)	(\$103,199)	(\$61,187)
CWF Accumulated Depreciation (Account 3100-2410)	(\$13,806)	(\$36,233)	(\$22,427)
CWF Depreciation Expense (Account 6560-2410)	(\$888)	(\$2,311)	(\$1,423)
Operating Other Taxes (Account 7240)	(\$160)	(\$392)	(\$232)

Because errors were noted in the Beneficiary's CWF route allocation support for the filing periods of December 31, 2019, we updated the total CWF asset balance reported for HC Program purpose as summarized in the table below.

Recalculation of Part 36 Balances³⁶			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
CWF (Account 2410)	\$5,469,565	\$5,408,378	\$61,187
CWF Accumulated Depreciation (Account 3100-2410)	\$3,999,997	\$3,977,570	\$22,427
CWF Deferred Taxes (Account 4340-2410)	\$440,216	\$435,429	\$4,787
CWF Depreciation Expense (Account 6560-2410)	\$88,863	\$87,440	\$1,423
CWF Expense (Account 6410)	\$261,957	\$259,028	\$2,929
Operating Other Taxes (Account 7240)	\$53,711	\$53,479	\$232

³⁶ Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

Recalculation of CWF Categorization ³⁷			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (Understatement)/ (A-B)
Category 1 – 1.1 Intra PL & WATS	\$16,794	\$16,606	\$188
Category 1 – 1.3 Jointly Used	\$4,748,448	\$4,695,328	\$53,120
Category 2 – WB Line (non-DSL)	\$25,142	\$24,861	\$281
Category 2 – WB Data Only Loop	\$262,950	\$260,008	\$2,942
Category 3 - WB PL	\$164,594	\$162,753	\$1,841
Category 3 – Joint MSG x/WB	\$248,605	\$245,824	\$2,781
Category 3 – PL & Local x/WB	\$3,032	\$2,998	\$34
Total	<u>\$5,469,565</u>	<u>\$5,408,378</u>	<u>\$61,187</u>

Cause

The Beneficiary’s system for collecting, reporting, and monitoring data did not adequately ensure that the Beneficiary reported the correct DSL, CBOL, and ETS counts for its COE common distribution—as well as the correct fiber data for its CWF route allocation—for HC Program purposes. The Beneficiary stated that “The company will update the workpapers and cost study prep for changes to customer counts including the common allocation,”³⁸ relating to the errors in count noted for COE assets. While for the CWF route allocation in particular, the Beneficiary did not fully communicate its update to traffic routing that needed to be made to the CWF route allocation prior to filing the 2019 cost study.³⁹

Effect

We calculated the monetary effect to the Beneficiary’s HC Program filing by adjusting the CAF BLS algorithm to subtract the overstated account balances and add the understated account balances—as stated in the “Recalculation of Part 36 Balances,” “Recalculation of Central Office Transmission Categorization,” and “Recalculation of Cable and Wire Facilities Categorization” tables above—for the period ending December 31, 2019. We summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$3,037
CAF ICC	<u>\$0</u>
Total	<u>\$3,037</u>

³⁷ Balances for CWF categorization for 2021 HC Program disbursements are only reported as of December 31, 2019.

³⁸ Found in the Beneficiary’s exception summary response, received July 1, 2024.

³⁹ *Id.*

Recommendation

We recommend:

1. USAC Management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary should implement a system that enables it to accurately report total COE and to assist with the reporting of the CWF route allocation for the purpose of receiving HC Program support. Specifically, the Beneficiary should implement a review process to ensure that factors, asset types, quantities, and balances are up to date and reflective of the current reporting period to ensure accurate reporting for HC Program purposes.

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery.

The company will update the workpapers and cost study prep for changes to customer counts including the common allocation. The company revised the interexchange transport network categorization study based on a revised traffic routing and an update to the provisioning of traffic. The complete routing of traffic was not fully communicated to the cost study preparation prior to the filing of the 2019 cost study. The company will continue to integrate the network administration leadership into the cost study preparation.

Sikich Response

Our position to this finding has not changed.

Finding No. 6: 47 C.F.R. § 54.7(a) (2019), FCC 15-133 (2015), and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support

Condition

We obtained and examined the Beneficiary's general ledger and cost study and selected a non-statistical sample of 96 expense transactions totaling \$92,569 that were selected as a result of reviewing the general ledger for unallowable expenses and 36 cost study adjustments for the filing period ending on December 31, 2019, to determine whether HC Program support was only used for the provision, maintenance, and upgrading of facilities and services for which the support is intended and accurately reported.

Unallowable Expense Transactions

We examined the supporting documentation for the 96 expense transactions and determined that, for 13 of the 96 transactions, the Beneficiary did not incur the expenses for the provision, maintenance, and upgrade of facilities and services for which the support was intended, as follows:

Account	Nature of Expense(s)	Number of Samples with Exception	Value of Samples with Exception	Unallowable Value of Samples with Exception
General and Administrative (Account 6720)	Credit Card Purchases – Calendars, Subscription, Coffee, Gift certification etc.	12	\$12,436	\$8,601
Marketing (Account 6610)	E/W Football Committee - Community sponsorship	1	\$125	\$80
Total		<u>13</u>		

Unallowable Cost Study Adjustment

We examined the supporting documentation for the 36 cost separation study adjustments and determined that one of the adjustments included costs that the Beneficiary did not incur for the provision, maintenance, and upgrade of facilities and services for which the support was intended, as follows:

- Cost Separation Study Adjustment 6.** Adjustment 6 in the Beneficiary’s cost separation study reclassified \$515 in charges recorded in the 12-month period ending December 31, 2019, from Part 32, Account 6720, *General and Administrative*, to Part 32, Account 6210, *Central Office Switching*. We reviewed the supporting documentation for this adjustment and determined that the charges related to Caller Name (CNAM) services. Per DA 11-1089 and 47 C.F.R. §64.1601, Calling Line Identification (CLID) is required by carriers using Signaling System 7 (SS7). While the definitions in §64.1600 indicate that a caller identification service could include the calling party number (CPN), the transmission of the CPN is required, but that does not mean that a caller identification (CNAM) service (which could also include other information such as caller name) is required. Therefore, while CLID is required, CNAM services are not, and therefore are not allowable.

We have summarized the impact of the inclusion of unallowable costs on account balances reported for HC Program purposes in the table below.

Recalculation of Part 36 Balances ⁴⁰			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
COE Switching Expense (Account 6210)	\$87,534	\$87,019	\$515
Marketing Expense (Account 6610)	\$7,902	\$7,822	\$80
General and Administrative Expense (Account 6720)	\$436,267	\$427,666	\$8,601

Cause

The Beneficiary's system for collecting, reporting, and monitoring data did not adequately ensure that the Beneficiary identified and excluded all non-regulated expenses from the amounts it reported for HC Program purposes. The Beneficiary stated that it did not thoroughly review the credit card statements and expenses incurred to determine if the expenses related to the maintenance, provisioning, or upgrade of telecommunications services because it was limited by resource constraints and insufficient knowledge of all the expenses it should exclude. Also, the Beneficiary stated that it took time to fully understand the context of the order and implement a process for identification, including adequately itemizing credit card statements.⁴¹

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by applying the following adjustments to the CAF BLS algorithm to subtract the overstated balances for the filing period ending December 31, 2019, as follows: \$515 from Account 6210, \$80 from Account 6610 and \$8,601 from Account 6720. We summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$1,684
CAF ICC	\$0
Total	<u>\$1,684</u>

Recommendation

We recommend:

1. USAC Management seek recovery of the amounts identified in the Effect section above.

⁴⁰ Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

⁴¹ Statement found in the Beneficiary's exception summary response, received July 1, 2024.

2. The Beneficiary develops and implements policies, procedures, and processes to ensure it (1) excludes costs that are not necessary for the provision, maintenance, and upgrade of facilities to demonstrate compliance with FCC Rule 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29.

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery.

The company did not thoroughly review the credit card statements and expenses incurred to determine if the expense was for the maintenance provisioning or upgrade of telecommunications services due to resource constraints and a limited knowledge of all the expenses that should be excluded. Also, the company took some time to fully understand the context of the order and implement a process for identification, including adequately itemizing credit card statements.

The accounting department has had adequate training and time to review the proper statements and determining the excluded expenses since year under audit and has a process in place to exclude the proper amount of expense.

Sikich Response

Our position to this finding has not changed.

Finding No. 7: 47 C.F.R. § 32.6110(b) (2019) – Improper Distribution of Overhead Expenses

Condition

We obtained and examined the Beneficiary's clearing process narrative, clearing reports, and general ledger for the filing period ending on December 31, 2019, to determine whether the Beneficiary (1) cleared the overhead amounts that it included in Part 32, Account 6110, *Network Support Expense*, to construction and/or plant-specific operations expense accounts and (2) allocated these amounts based on direct labor hours.

We reviewed the documentation supporting the Beneficiary's overhead clearing of Part 32 Account 6110 and determined that the Beneficiary used labor dollars as its basis for allocating overhead costs to construction and/or plant-specific operations expense accounts throughout the filing period ending on December 31, 2019, instead of using labor hours, as required by FCC Rule.⁴²

⁴² 47 C.F.R. § 32.6110(b).

We summarize the effect of utilizing the incorrect allocation basis on account balances reported for HC Program purposes in the table below:

Recalculation of Part 36 Balances ⁴³			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Telecommunications Plant Under Construction-Short Term (Account 2003)	\$114,224	\$114,121	\$103
COE Switching Expense (Account 6210)	\$87,534	\$85,512	\$2,022
COE Transmission Expense (Account 6230)	\$136,063	\$134,209	\$1,854
CWF Expense (Account 6410)	\$261,957	\$265,939	(\$3,982)

Cause

The Beneficiary's system for collecting, reporting, and monitoring data did not adequately ensure that the Beneficiary properly distributed and recorded its overhead clearing expenses to the related plant-specific operations expense accounts using direct labor hours. The Beneficiary stated that it incorporated labor dollars in its allocation of the Part 32 Account 6110 clearing process based on the financial system programmed account settings.⁴⁴

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by applying the following adjustments to the CAF BLS algorithm to subtract the overstated balances and add the understated balance for the filing period ending December 31, 2019, as follows: \$103 subtracted from *Telecommunications Plant Under Construction-Short Term* account 2003, \$2,022 subtracted from *COE Switching Expense* account 6210, \$1,854 subtracted from *COE Transmission Expense* account 6230 and adding the understated balance of \$3,982 to account *CWF Expense* account 6410. We summarize the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	(\$1,069)
CAF ICC	\$0
Total	<u>(\$1,069)</u> ⁴⁵

⁴³ Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

⁴⁴ Statement found in the Beneficiary's exception summary response, received July 1, 2024.

⁴⁵ The HC Program does not pay additional support in the event of a finding resulting in an underpayment.

Recommendation

We recommend the Beneficiary updates its methodology for clearing overhead costs to ensure that it properly calculates and distributes the costs based on direct labor hours, as required by FCC Rule.⁴⁶

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery.

The company will update the clearing process to incorporate labor hours in the clearing process of the 6110 network expenses instead of labor dollars.

Sikich Response

Our position to this finding has not changed.

Finding No. 8: 47 C.F.R. § 32.2(a)(b) (2019) – Misclassification of Part 32 Accounts: Expenses

Condition

We obtained and examined the Beneficiary's general ledger and cost study balances and selected a non-statistical sample of 102 expense transactions⁴⁷ totaling \$136,697 for the filing period ending on December 31, 2019, to determine whether the Beneficiary recorded transactions to the proper Part 32 accounts for HC Program purposes. We examined the supporting invoices and determined that the Beneficiary did not properly classify 3 of the 102 expense transactions, as described in the table below.

⁴⁶ See 47 C.F.R. § 32.6110(b) (2019).

⁴⁷ 96 expense transactions totaling \$92,569 selected as a result of reviewing the general ledger for unallowable expenses, as well as an additional 6 expense transactions totaling \$44,128 that were selected for testing in accordance with HC Program rules.

Sample Ref #	Nature of Expense	Original Recorded General Ledger Account	Updated Recorded General Ledger Account	Total Value of Sample with Exception	Value of Misclassified Expense Within the Sample
6	Server	General and Administrative (Account 6720)	Central Office Equipment Transmission Asset (Account 2230)	\$7,857	\$4,073
13	Office Chair	General and Administrative (Account 6720)	General Support Expense (Account 6120)	\$1,246	\$82
14	Outside plant 2019 seminar	General and Administrative (Account 6720)	Cable and Wire Facilities Expense (Account 6410)	\$832	\$325

Because the Beneficiary did not record the three expense transactions to the proper Part 32 accounts, we concluded that the cost study balances reported for HC Program purposes were inaccurate. We have summarized the effect of the misclassified expenses in the tables below.

Recalculation of Part 36 Balances ⁴⁸			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Central Office Equipment Transmission (Account 2230)	\$2,007,089	\$2,011,162	(\$4,073)
Central Office Transmission Accumulated Depreciation (Account 3100-2230)	\$1,984,261	\$1,984,397	(\$136)
Deferred Taxes Central Office Transmission (Account 4340-2230)	(\$1,641)	(\$387)	(\$1,254)
General Support Expense (Account 6120)	\$124,972	\$125,054	(\$82)
Cable and Wire Facilities Expense (Account 6410)	\$261,957	\$262,282	(\$325)

⁴⁸ Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

Recalculation of Part 36 Balances ⁴⁸			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Central Office Transmission Depreciation Expense (Account 6560-2230)	\$33,991	\$34,127	(\$136)
General and Administrative (Account 6720)	\$436,267	\$431,787	\$4,480

Recalculation of Central Office Transmission Categorization ⁴⁹			
Category	As Reported Part 36 Balances (A)	Sikich Audited Part 36 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Category 4.11 – Wideband-Line	\$6,627	\$6,640	(\$13)
Category 4.11 – Direct Assignment	\$615,893	\$617,143	(\$1,250)
Category 4.13 – Joint MSG	\$1,254,148	\$1,256,693	(\$2,545)
Category 4.13 – PL & Local	\$4,436	\$4,445	(\$9)
Category 4.22 – Interexchange PL	\$47,694	\$47,791	(\$97)
Category 4.23 – All Other Joint MSG	\$77,347	\$77,504	(\$157)
Category 4.23 – PL & Local	<u>\$943</u>	<u>\$945</u>	<u>(\$2)</u>
Total	<u>\$2,007,088</u>	<u>\$2,011,161</u>	<u>(\$4,073)</u>

Cause

The Beneficiary’s system for collecting, reporting, and monitoring data did not adequately ensure that the Beneficiary recorded expenses to the proper general ledger account for HC Program purposes. Specifically, the Beneficiary misinterpreted the expenditure based on its function in providing telecommunications services.⁵⁰

Effect

We calculated the monetary effect to the Beneficiary’s HC Program filing by adjusting the CAF BLS algorithm to subtract the overstated account balances and add the understated account balances—as stated in the “Recalculation of Part 36 Balances” and “Recalculation of Central Office Transmission Categorization” above—for the period ending December 31, 2019. We

⁴⁹ Balances for Central Office Transmission Categorization for 2021 HC Program disbursements are only reported as of December 31, 2019.

⁵⁰ Statement found in the Beneficiary’s response to the exception summary, received July 1, 2024.

summarized the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$852
CAF ICC	\$0
Total	<u>\$852</u>

Recommendation

We recommend:

1. USAC Management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary implements policies and procedures to ensure it classifies expense transactions to the proper Part 32 accounts to demonstrate compliance with FCC Rules. Specifically, the Beneficiary should develop policies and procedures that are inclusive of vetting expense types against the Part 32 account definitions to ensure it is correctly coding the expenses in the general ledger.

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery.

The company had a misinterpretation of the expenditure based on its function in providing telecommunications services. The company will thoroughly review the expenditure and reference the FCC part 32 rules for proper classification.

Sikich Response

Our position to this finding has not changed.

Finding No. 9: 47 C.F.R. § 54.320(b) (2019), 47 C.F.R. § 32.27 (2019), and 47 C.F.R. § 64.901 (2019) – Inadequate Documentation and Inaccurate Reporting: Related Party Transactions

Condition

We obtained and examined the Beneficiary's general ledger, related-party transaction listing, and cost study balances to determine whether the Beneficiary reported its related party transactions in compliance with 47 C.F.R. § 32.27—including a non-statistical sample of 10 related-party transactions totaling to \$56,419, for HC Program purposes.

We reviewed the supporting documentation for our samples and noted the following:

Inadequate Documentation of Related-Party Transactions

We inspected the supporting documentation for the selected related-party transactions to determine if the Beneficiary could substantiate the value of the transactions and determined that the Beneficiary was unable to adequately support 8 of the 10 transactions, as follows:

- **Related-Party Transaction Sample 1:** The Beneficiary was unable to support that its allocation methodology utilized was based on cost-causative factor linkage. We noted that the supporting invoice from Calix for essential support entitlement, for a total of \$12,595, however the Beneficiary only recorded a \$4,198 sample value to Part 32, Account 6230, *Central Office Transmission*. We noted that the Beneficiary divided the invoiced amount into equal thirds and allocated one third to three entities. We inquired with the Beneficiary, which stated, “The purchase supports all 3 companies: NTI, RTC, and Pend and the purchase is for technical support and located in each CO.”⁵¹ The Beneficiary developed the allocation based on non-cost-causative method of the number of companies the expense supported, therefore it did not meet the requirement that allocations be cost-causative if it is not possible to directly assign the costs.
- **Related-Party Transaction Sample 4:** The Beneficiary could not provide adequate supporting documentation to support the value of the sample for a total of \$2,226 recorded in Part 32 account 6610 *Marketing* with a description of “nti expense pd by rtc.” We inquired with the Beneficiary as to how to reconcile the value of the sample, as the supporting bank statement included multiple transactions; however, the Beneficiary did not respond to the request. Because the Beneficiary did not respond to our inquiry,⁵² we determined that the sample was not adequately supported.
- **Related-Party Transaction Samples 2, 3, 5, and 6:** The Beneficiary was unable to provide an adequate overhead clearing report for the benefit spread to support a total of \$21,587 in transactions recorded in four Part 32 accounts: Account 6512, *Provision*; Account 6531, *Engineering*; Account 6627, *Customer Service*; and Account 6720, *General and Administrative* with a description “nti expense pd by rtc.” We determined that the sample values were composed of payroll-related entries from RTC for work performed on behalf of the Beneficiary and payroll benefits were also being spread. Per response to our inquiry, the Beneficiary stated, “There was a RTI work order closed that month, so the spread amounts are different than what was recorded in the General Ledger at the time.”⁵³ Because the work order closed, the Beneficiary updated its benefit spread, and the support provided for the audit therefore differs from the amount entered as of December 31, 2019. However, since the Beneficiary was unable to support the original benefit-clearing amounts, we consider the benefit-spread portion of the sample value to be inadequately supported.
- **Related-Party Transaction Samples 7 and 8:** The Beneficiary could not provide supporting documentation to validate the pricing methodology utilized for a construction

⁵¹ Statement found in the Beneficiary’s response to inquiry #65f on the Audit Inquiries Listing.

⁵² *Id.*

⁵³ *Id.*

equipment lease between NTI and its affiliate Little Valley Elk and a transportation equipment lease recorded in Part 32, Account 6110. We inquired with the Beneficiary, which stated that there is no written agreement between the two entities.⁵⁴ We further inquired with the Beneficiary regarding how it determined pricing for this transaction, what the total value of the lease is, and the duration of the lease; however, the Beneficiary did not respond or provide any additional support.⁵⁵ We determined that Samples 7 and 8 were recurring transactions for the filing period ending on December 31, 2019, and therefore determined that all transactions recorded in the general ledger with a description of Little Valley Elk totaling \$22,017 were inadequately supported. However, as part of the Beneficiary's overhead distribution process for Part 32, Account 6110, the Beneficiary credits Account 6110 for total expenses booked each month and distributes this amount to the Beneficiary's construction and/or plant-specific expense accounts. We therefore recalculated the clearing spread after removing the unsupported lease expense and determined the adjustments to be applied to the different construction and/or plant-specific expense accounts to which the Beneficiary had spread the costs.

Inaccurate Reporting of Related-Party Transactions

Transaction Description: "common costs"

We reviewed the Beneficiary's related-party transaction listing and identified monthly recurring transactions in the amount of \$14,804 for the filing period ending on December 31, 2019. The Beneficiary labeled these transactions with the description "common costs" and allocated each transaction between two Part 32 accounts: Account 6120, *General Support*, and Account 6720, *General and Administrative*. FCC Rule 47 C.F.R. § 64.901(3) states, "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." As such, we requested the Beneficiary provide documentation to support the monthly common cost charge of \$14,804. We reviewed the supporting documentation and determined that RTC had allocated the \$14,804 to the Beneficiary as the Beneficiary's share of a \$25,378 line item that represented RTC's monthly total of common costs to allocate between the Beneficiary and Pend Oreille Telecom (Pend), another entity that RTC owns. We further examined the \$25,378 line item in the common cost workbook the Beneficiary provided and noted the following:

1. RTC derived the common cost workbook from its general ledger expense data for January-December 2004, to be applied in the year 2005 and rolled forward each subsequent data period up to the current filing period ending on December 31, 2019. As a result of this roll-forward approach and not using the current expense data per the general ledger, the Beneficiary's \$14,804 monthly common cost charge on its Part 32 Accounts 6120 and 6720 was not accurate and up to date for 2019. The Beneficiary did update its common cost workbook for the purpose of the audit and used 2019 expense data. The revised monthly common cost for RTC was \$27,741 with an updated allocation amount of \$16,182 for the Beneficiary.

⁵⁴ *Id.*

⁵⁵ *Id.*

2. The amount for one expense from Snake River Rubbish, LLC that RTC allocated to the Beneficiary and Pend as a common cost and that the Beneficiary in turn allocated to Account 6120 did not agree to the amount that RTC reported in its general ledger detail, as follows:

Vendor	Original Balance Allocated (A)	Sikich Verified Balance (B)	Variance Overstatement/ (Understatement) (A-B)
Snake River Rubbish, LLC	\$3,705	\$3,420	\$285

3. The Beneficiary did not adequately support the allocation percentages that RTC developed for allocating the \$25,378 between its related parties. Specifically, the Beneficiary stated that RTC had logically determined the allocation percentages (35 percent to the Beneficiary, 25 percent to Pend, and 40 percent to RTC) and did not have documentation to support the percentages.

Based on the issues identified above, we updated (1) the monthly common cost allocation between the Beneficiary, Pend, and RTC to reflect 2019 expense data; (2) the vendor expense from Snake River Rubbish, LLC to reflect the actual cost; and (3) allocation factors to represent cost-causative allocation percentages utilizing the number of 2019 connection points for RTC, the Beneficiary, and Pend rather than allocating the amount equally between the three entities.

Transaction Description: “nti expense pd by rtc”

When reconciling the total monthly entry value recorded on the Beneficiary’s general ledger to the amount recorded in RTC’s monthly general ledger and noted the following difference:

- In November 2019, the Beneficiary overstated the balance in its general ledger Account 4199.10 by \$1,000. Because the Beneficiary distributed its Account 4199.10 total for the month of November 2019 to Part 32, Account 6110, *Network Support*; Account 6512, *Provision*; Account 6610, *Marketing*; Account 6627, *Customer Service*; and Account 6720, *General and Administrative*, we inquired to the Beneficiary to obtain details of how account 4199.10 was distributed to correct the error, but received no response.⁵⁶ We therefore removed the \$1,000 based on the original value of the account to which it was originally distributed.

We have summarized the impact of these issues on the account balances the Beneficiary reported for HC Program purposes in the following table.

⁵⁶ Statement found in the Beneficiary’s response to inquiry #79a on the Audit Inquiries Listing.

Recalculation of Part 36 Balances ⁵⁷			
Account	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Telecommunications Plant Under Construction (Account 2003)	\$114,224	\$114,015	\$209
General Support Expense (Account 6120)	\$124,972	\$155,384	(\$30,412)
Central Office Switching Expense (Account 6210)	\$87,534	\$82,284	\$5,250
Central Office Transmission Expense (Account 6230)	\$136,063	\$131,590	\$4,473
Cable and Wire Facilities (Account 6410)	\$261,957	\$248,921	\$13,036
Network Operations Expense (Account 6530)	\$83,753	\$80,515	\$3,238
Marketing Expense (Account 6610)	\$7,902	\$5,628	\$2,274
Customer Service Expense (Account 6620)	\$147,869	\$144,314	\$3,555
General and Administrative (Account 6720)	\$436,267	\$427,026	\$9,241

Cause

The Beneficiary did not have adequate data retention procedures in compliance with 47 C.F.R. § 54.320(b) to ensure that it properly retained records to support that it recorded its affiliate transactions in the proper amount and to the proper general ledger account. The Beneficiary stated that RTC updated its common costs every 2 years and therefore failed to include some of the updated costs for NTI. The Beneficiary noted that RTC operated a lean accounting staff and that expenses do not vary on a material basis, so RTC determined that periodic updating of the allocation basis was an appropriate allocation methodology.⁵⁸

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by adjusting the CAF BLS algorithm to subtract the overstated account balances and add the understated account balances—as stated in the “Recalculation of Part 36 Balances” table above—for the period ending December 31, 2019. We summarized the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2021, in the table below.

⁵⁷ Part 36 balances for the period of January 1, 2019 – December 31, 2019, are reported at an average balance of 2018 and 2019 ending balances for assets and 2019 ending balances for expenses.

⁵⁸ Statement found in the Beneficiary's response to the exception summary, received July 1, 2024.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	\$874
CAF ICC	<u>\$0</u>
Total	<u>\$874</u>

Recommendation

We recommend:

1. USAC Management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary develops and implements policies, procedures, and processes to ensure that allocation percentages are current and accurate for allocated balances that the Beneficiary submits for HC Program purposes, including implementing review processes to (1) ensure the Beneficiary uses updated data in performing its allocations, and (2) ensure transactions are accurately entered into its general ledger.

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

Beneficiary Response

The beneficiary agrees with the finding and the monetary effect & recommended recovery.

The company allocates company-wide common costs that specifically benefit NTI through a company allocation process. The company identifies the common cost based on a review of the accounting procedures and establishes an allocation pool. The company updates the identified costs every 2 years and thus failed to include some of the updated costs for NTI. The company operates a lean accounting staff and expenses do not vary on a material basis, so the periodic updating of the allocation basis was determined to be an appropriate allocation methodology. Going forward, the company will more often review the common expense allocation base prior to the allocation basis to determine if the proper expense is included.

Sikich Response

Our position to this finding has not changed.

Criteria

Finding	Criteria	Description
1, 9	47 C.F.R. § 54.320(b) (2019)	(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

Finding	Criteria	Description
		documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
1, 9	47 C.F.R. § 64.901 (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

Finding	Criteria	Description
		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.
2	47 C.F.R. § 54.1305 (2019)	(a) In order to allow determination of the study areas and wire centers that are entitled to an expense adjustment pursuant to § 54.1310, each incumbent local exchange carrier (LEC) must provide the National Exchange Carrier Association (NECA) (established pursuant to part 69 of this chapter) with the information listed for each study area in which such incumbent LEC operates, with the exception of the information listed in <u>paragraph</u>

Finding	Criteria	Description
		(h) of this section, which must be provided for each study area. This information is to be filed with NECA by July 31st of each year. The information provided pursuant to paragraph (i) of this section must be updated pursuant to § 54.1306. Rural telephone companies that acquired exchanges subsequent to May 7, 1997, and incorporated those acquired exchanges into existing study areas shall separately provide the information required by paragraphs (b) through (i) of this section for both the acquired and existing exchanges. (b) Unseparated, i.e., state and interstate, gross plant investment in Exchange Line Cable and Wire Facilities (C&WF) Subcategory 1.3 and Exchange Line Central Office (CO) Circuit Equipment Category 4.13. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing. (c) Unseparated accumulated depreciation and noncurrent deferred federal income taxes, attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. These amounts shall be calculated as of December 31st of the calendar year preceding each July 31st filing, and shall be stated separately. (d) Unseparated depreciation expense attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. This amount shall be the actual depreciation expense for the calendar year preceding each July 31st filing. (e) Unseparated maintenance expense attributable to Exchange Line C&WF Subcategory 1.3 investment and Exchange Line CO Circuit Equipment Category 4.113 investment. This amount shall be the actual repair expense for the calendar year preceding each July 31st filing.

Finding	Criteria	Description
		(f) Unseparated corporate operations expenses, operating taxes, and the benefits and rent proportions of operating expenses. The amount for each of these categories of expense shall be the actual amount for that expense for the calendar year preceding each July 31st filing. The amount for each category of expense listed shall be stated separately. (g) Unseparated gross telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing. (h) Unseparated accumulated depreciation and noncurrent deferred federal income taxes attributable to local unseparated telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing. (i) 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. (j) The number of consumer broadband-only loops for each study area, as defined in § 54.901(g), calculated as of December 31st of the calendar year preceding each July 31st filing.
2	47 C.F.R. § 54.1306 (2019)	(a) Any incumbent local exchange carrier subject to § 54.1301(a) may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to <u>§ 54.1305</u> one or

Finding	Criteria	Description
		more times annually on a rolling year basis according to the schedule. (1) Submit data covering the last nine months of the previous calendar year and the first three months of the existing calendar year no later than September 30th of the existing year; (2) Submit data covering the last six months of the previous calendar year and the first six months of the existing calendar year no later than December 30th of the existing year; (3) Submit data covering the last three months of the second previous calendar year and the first nine months of the previous calendar year no later than March 30th of the existing year. (b) [Reserved].
2	47 C.F.R. § 69.501 (2019)	(a) [Reserved] (b) Until December 31, 2001, any portion of the Common Line element annual revenue requirement that is attributable to CPE investment or expense or surrogate CPE investment or expense shall be assigned to the Carrier Common Line element or elements. (c) Until December 31, 2001, any portion of the Common Line element annual revenue requirement that is attributable to customer premises wiring included in IOT investment or expense shall be assigned to the Carrier Common Line element or elements. (d) [Reserved] (e) Until December 31, 2001, any portion of the Common Line element revenue requirement that is not assigned to Carrier Common Line elements

Finding	Criteria	Description
		pursuant to paragraphs (b) and (c) of this section shall be apportioned between End User Common Line and Carrier Common Line pursuant to § 69.502. Such portion of the Common Line element annual revenue requirement shall be described as the base factor portion for purposes of this subpart. (f) Beginning January 1, 2002, the Common Line element revenue requirement shall be apportioned between End User Common Line and Carrier Common Line pursuant to § 69.502. The Common Line element annual revenue requirement shall be described as the base factor portion for purposes of this subpart.
2, 4	47 C.F.R. § 54.903(a)(4) (2019)	(4) Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories.
3	47 C.F.R. § 32.2000(g)(2)	(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

Finding	Criteria	Description
		Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.
4	47 C.F.R. § 54.903(a)(3) (2019)	(3) Each rate-of-return carrier shall submit to the Administrator annually by March 31 projected data necessary to calculate the carrier's prospective CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for each of its study areas in the upcoming funding year. The funding year shall be July 1 of the current year through June 30 of the next year. The data

Finding	Criteria	Description
		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.
5	47 C.F.R. § 36.121(b)(c)(d) (2019)	(b) Records of the cost of central office equipment are usually maintained for each study area separately by accounts. However, each account frequently includes equipment having more than one use. Also, equipment in one account frequently is associated closely with equipment in the same building in another account. Therefore, the separations procedures for central office equipment have been designed to deal with categories of plant rather than with equipment in an account. (c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records. (1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories. (i) The cost of power equipment used by one category is assigned directly to that category, e.g., 130-volt power supply provided for circuit equipment. The cost of emergency power equipment protecting only power equipment used by one category is also assigned directly to that category.

Finding	Criteria	Description
		(ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment. (d) The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment.
5	47 C.F.R. § 64.901(b) (2019)	(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

Finding	Criteria	Description
		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.
5	47 C.F.R. § 36.151 (2019)	(a) Cable and Wire Facilities, Account 2410, includes the following types of communications plant in service: Poles and antenna supporting structures, aerial cable, underground cable, buried cable, submarine cable, deep sea cable, intrabuilding network cable, aerial wire and conduit systems. (b) For separations purposes, it is necessary to analyze the cable and wire facilities classified in subordinate records in order to determine their assignment to the categories listed in the following paragraphs. (c) In the separation of the cost of cable and wire facilities among the operations, the first step is the assignment of the facilities to certain categories. The basic method of making this assignment is the

Finding	Criteria	Description
		identification of the facilities assignable to each category and the determination of the cost of the facilities so identified. Because of variations among companies in the character of the facilities and operating conditions, and in the accounting and engineering records maintained, the detailed methods followed, of necessity, will vary among the companies. The general principles to be followed, however, will be the same for all companies. (d) The second step is the apportionment of the cost of the facilities in each category among the operations through the application of appropriate factors or by direct assignment
5	47 § 36.154(a) (2019)	(a) Exchange Line C&WF - Category 1. The first step in apportioning the cost of exchange line cable and wire facilities among the operations is the determination of an average cost per working loop. This average cost per working loop is determined by dividing the total cost of exchange line cable and wire Category 1 in the study area by the sum of the working loops described in subcategories listed below. The subcategories are: Subcategory 1.1 - State Private Lines and State WATS Lines. This subcategory shall include all private lines and WATS lines carrying exclusively state traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes ten percent or less of the total traffic on the line. Subcategory 1.2 - Interstate private lines and interstate WATS lines. This subcategory shall include all private lines and WATS lines that carry exclusively interstate traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes more than ten percent of the total traffic on the line. Subcategory 1.3 - Subscriber or common lines that are jointly used for local exchange service and

Finding	Criteria	Description
		exchange access for state and interstate interexchange services.
6	47 C.F.R. § 54.7(a) (2019)	(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.
6	FCC 15-133 All Universal Support High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose, WC Docket Nos. 10-90, 14-58, Public Notice, 30 FCC Rcd 11821 (2015) (High-Cost Oct. 19, 2015 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.
6	FCC 18-29 Connect America Fund et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and	A. Eligible Expenses 10. 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

Finding	Criteria	Description
	Further Notice of Proposed Rulemaking, 33 FCC Rcd 2990, 2994 (2018) (Rate-of-Return Reform Reconsideration Order).	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.
7	47 C.F.R. § 32.6110(b) (2019)	(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
8	47 C.F.R. § 32.2(a)(b) (2019)	(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. (b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future

Finding	Criteria	Description
		innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.
9	47 C.F.R. § 32.27 (2019)	(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 <u>paragraphs (b) through (f)</u> 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.

Finding	Criteria	Description
		(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

Finding	Criteria	Description
		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.

Finding	Criteria	Description
		(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.

Sikich CPA LLC

Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: August 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A Cincinnati Bell, Inc.	0	Not applicable.	\$103,343	\$0	\$0	N/A
Total	0		\$103,343	\$0	\$0	

INFO Item: Audit Released August 2025
Attachment A
10/27/2025

Attachment A

LI2023LR003

Cincinnati Bell, Inc.

Audit ID: LI2023LR003

Universal Service Administrative Company - Lifeline Program

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

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

As of Date: July 23, 2025

KPMG LLP
8350 Broad Street #900
McLean, VA 22102

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

July 23, 2025

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the limited review performance audit objective relative to Cincinnati Bell, Inc. (“Cincinnati Bell” or “Beneficiary”) for Study Area Codes (“SACs”) 623100, 265061, 305062, where the Beneficiary claimed subscribers for reimbursement from the Universal Service Fund (“USF”) Low Income Support Mechanism (also known as the Lifeline program) for July 1, 2021, to June 30, 2022. Our work was performed from September 7, 2023, to July 23, 2025 and our results are as of July 23, 2025.

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

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

The objective of this limited review performance audit was to evaluate the Beneficiary’s compliance with select Federal Communications Commission (“FCC”) rules and regulations and orders related to the Lifeline program, including those set forth in 47 C.F.R. (“Code of Federal Regulations”) Part 54, Subpart E, (collectively “FCC Rules”).

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

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

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

In addition, we also noted a finding that is not significant within the context of the audit objective but warrants the attention of those charged with governance. We reported this finding to the Beneficiary’s management in a separate letter dated July 23, 2025.



This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes. This report is not confidential and may be released by USAC and the FCC.

Sincerely,

KPMG LLP

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

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVE, SCOPE, AND PROCEDURES

BACKGROUND

Beneficiary Overview

The Beneficiary is an incumbent eligible telecommunications carrier (“ETC”) that provides telecommunications services to Lifeline program participants. The Lifeline program, administered by USAC under the direction of the FCC, provides eligible low-income consumers with a discount on qualifying monthly telephone service, broadband Internet service, or bundled voice-broadband packages purchased from participating wireline and wireless providers.

Cincinnati Bell, Inc., located in Cincinnati, Ohio, provides wireless telephone, internet and television services. The Beneficiary operates in the states identified in the table below.

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

SAC	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
265061	Kentucky	Non-Tribal Lifeline	782	\$4,457
305062	Ohio	Non-Tribal Lifeline	7,758	\$45,666
623100	Hawaii	Non-Tribal Lifeline	10,128	\$53,220
TOTAL			18,668	\$103,343

OBJECTIVE

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

SCOPE

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

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

1. Lifeline Claim System
2. Waivers
3. Lifeline Subscriber Discounts
4. Usage Process
5. Minimum Service Standards
6. Reseller-based Telecommunication Providers
7. Enrollment Representative Accountability

PROCEDURES

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

1. Lifeline Claim System

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

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

2. Waivers

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

3. Lifeline Subscriber Discounts

KPMG obtained and examined 93 monthly bills to demonstrate that the Beneficiary passed through Lifeline program support to 31 subscribers sampled as monthly bill credits and confirmed whether the amount agreed to its monthly LCS claims.

4. Usage Process

KPMG obtained an understanding from the Beneficiary as to whether it assessed and collected a monthly fee from its subscribers. KPMG obtained and examined a sample of bills for 31 subscribers and confirmed that the Beneficiary assessed and collected a monthly fee and, thus, was not subject to the requirements of monitoring whether subscribers used the service.

5. Minimum Service Standards

KPMG obtained and examined the Beneficiary's evidence of the level of service provided for all subscribers to determine whether the Beneficiary provided eligible services and devices that meet the Lifeline minimum service standards and whether the related amount claimed to the LCS agreed with the amount permitted based on the service offerings to its Lifeline subscribers.

6. Reseller-based Telecommunication Providers

KPMG obtained and examined documentation to determine whether the Beneficiary is a reseller of telecommunication services (uses another carrier's network to provide service relating to the Lifeline program). The evidence confirmed that the Beneficiary is not a reseller of telecommunications and therefore no further reseller testing was applicable.

7. Enrollment Representative Accountability

KPMG obtained an understanding of the Beneficiary's enrollment representative process relating to the Lifeline program to determine whether the Beneficiary complied with the FCC Rules. KPMG obtained and examined a sample of four monthly paychecks for three out of five enrollment representatives utilized by Cincinnati Bell to determine whether the Beneficiary compensates its enrollment representatives on a commission basis. Limited activity analysis was conducted for sampling purposes only in this audit.

RESULTS

KPMG's performance audit procedures identified no audit findings.

CONCLUSION

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

**** This concludes the audit report.****