

High Cost & Low Income Committee

Audit Briefing Book

Monday, October 26, 2026

Available For Public Use

Universal Service Administrative Company Office

700 12th Street, N.W., Suite 900

Washington, D.C. 20005

Summary of the High Cost Support Mechanism Beneficiary Audit Reports Released: June 2026.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Attachment A Planters Rural Telephone Cooperative, Inc.	2	• No significant findings.	$8,455,620	($432,768)	$0	N
Attachment B Manchester-Heartland Telephone Company	1	• No significant findings.	$115,242	$3,472	$3,472	N
Total	**3**		**$8,570,862**	**($429,296)**	**$3,472**	

* The Monetary Effect amount may result in negative amounts that appear to be an underpayment. However, USAC's policy is not to issue support in the case of an audit finding (i.e., FCC rule violation) when the calculation results in a net underpayment. In these instances, the USAC Management Recovery Action is $0.

Attachment A

HC2024LR029

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PLANTERS RURAL TELEPHONE COOPERATIVE, INC.

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

USAC AUDIT NO. HC2024LR029

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Executive Summary

January 23, 2026

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

Dear Ms. Delmar:

Sikich CPA LLC[1] (referred to as "we") was engaged to conduct a limited scope performance audit on the compliance of Planters Rural Telephone Cooperative, Inc. (the Beneficiary), study area code (SAC) 220378, for disbursements made from the federal Universal Service Fund (USF) High Cost Support Mechanism (High Cost program) during the year ended December 31, 2023. We conducted the audit field work from March 11, 2024, to January 23, 2026.

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 governing the High Cost program, 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 (collectively, FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. Sikich's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

Based on the test work performed, our audit disclosed two 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 the FCC Rules that were in effect during the audit period. Sikich's determination is based on the circumstances in this audit and is neither

[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 (USAC).

binding nor limiting to any other past or future Sikich, USAC, or FCC verification, audit, or investigation.

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 limited scope performance audit disclosed that the Beneficiary did not comply with the FCC Rules, as set forth in the two detailed audit findings discussed below.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 32.2000(g)(2) (2021) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary reported incorrect depreciation and accumulated depreciation expense amounts to USAC for High Cost program purposes.	($266,284)	($134,400)	$0	($400,684)	$0
Finding No. 2, 47 C.F.R § 32.27(c) (2021) and 47 C.F.R 64.901 (2021) – Incorrect Pricing of Affiliate Transactions and Inaccurate Cost Study Adjustment The Beneficiary did not use the correct pricing method for its affiliate fiber lease which resulted in an inaccurate cost study adjustment.	($19,088)	($12,996)	$0	($32,084)	$0
Total Net Monetary Effect	**($285,372)**	**($147,396)**	**$0**	**($432,768)**	**$0**

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

USAC Management Response
USAC management concurs with the audit results regarding SAC 220378 for High Cost program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures and compliance with FCC Rules.

Finding	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	($266,284)	($134,400)	$0	($400,684)	N/A
Finding No. 2	($19,088)	($12,996)	$0	($32,084)	N/A
Total	**($285,372)**	**($147,396)**	**$0**	**($432,768)**	N/A

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

Background
The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications services to more than 5,000 subscribers in Georgia. In addition to Part 64 regulated services, the Beneficiary also offers a variety of other services, including customer premises equipment (CPE), inside wire, voicemail, internet, network services in customer premises, and data transport, 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. The Beneficiary is affiliated with several companies, including Planters Long Distance, Inc. (PLD) wholly owned by the Beneficiary; Planters Rural Cellular Inc. (PRC) wholly owned by the Beneficiary; Planters Communications, Inc. (PC) wholly owned by PRC and is a competitive local exchange carrier (CLEC), Internet Service (ISP) and Transport provider; and PBP Group, LLC for which PRC holds a one-third interest.

Objectives, Scope, and Procedures

Objective
The purpose of our limited scope performance audit was to determine whether the Beneficiary complied with the FCC Rules for the 2023 disbursement period.

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

High Cost program Support	Data Period	Disbursement Period	Disbursements Audited

CAF BLS	2021	2023	$5,586,318
HCL	2021	2023	$2,533,044
CAF ICC	2020-2022	2023	$336,258
		Total	**$8,455,620**

Procedures

We performed the following procedures:

A. High Cost program Support Amount

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

B. High Cost program Process

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

C. Fixed Assets

We obtained and reviewed 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 reviewed documentation and conducted a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts.

D. Operating Expenses

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

E. Revenues

We obtained and reviewed 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 reviewed a listing of transactions between the Beneficiary and its affiliated entities, as well as

management, service, and lease agreements related to the transactions, to determine whether the Beneficiary recorded transactions in accordance with 47 C.F.R. §32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and compared these study balances to the amounts used to calculate High Cost program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and reviewed 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(g)(2) (2021) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

Condition

We obtained and reviewed the Beneficiary's general ledger, depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated its depreciation expense and the associated accumulated depreciation for High Cost program purposes for the 12-month period ending December 31, 2021. In accordance with the FCC Rules, the Beneficiary must record depreciation using average monthly asset balances, calculated on the first and last day of each month, and record the associated accumulated depreciation accordingly.[3]

Based on our review of the Beneficiary's depreciation schedule and our communication with the Beneficiary, we determined the Beneficiary did not appropriately calculate its depreciation expense or accumulated depreciation based on the FCC Rules. Specifically, we found:

- The Beneficiary did not always calculate its depreciation expense based on the FCC-approved methodology of taking the average of the beginning and ending balance for each month and multiplying this average by the depreciation rate. Rather, the Beneficiary used the composite unit methodology to calculate depreciation expense for the majority of the accounts tested. Under this method, depreciation is calculated based on individual units, applying useful lives to each, rather than using an average for the entire account. The Beneficiary only used the correct composite account methodology for the Circuit Equipment-ONT account (account 2232.51) [4] and two other Circuit Equipment accounts that we did not test (accounts 2232.7 and 2232.71).[5]

[3] *See* 47 C.F.R. § 32.2000(g)(2)(iii) (2021).
[4] *See* 47 C.F.R. § 32.2232 (2021).
[5] *Id.* at footnote 4.

- The Beneficiary used an incorrect depreciation rate of 4.5 percent instead of the State of Georgia-regulated rate of 3.5 percent when calculating depreciation expense for the Underground Fiber Optic cable account (account 2422.1).[6]

- The Beneficiary did not calculate the depreciation expense for Tower (poles) account (account 2411.1)[7] to show the account as fully depreciated in the corresponding general ledger accumulated depreciation account. Specifically, the Beneficiary did not record general ledger entries to properly reflect the asset account as being fully depreciated, as indicated in its Asset Management Module.

Because the Beneficiary (1) did not consistently use the FCC-approved depreciation methodology for all accounts, (2) used the incorrect depreciation rate for account 2422.1,[8] and (3) did not appropriately calculate depreciation expenses for account 2411.1,[9] we independently recalculated the Beneficiary's depreciation expense and accumulated depreciation balances for the filing period ending December 31, 2021.

In the table below, we summarize the effect of the incorrect depreciation calculations on the account balances reported for High Cost program purposes:

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	**As Reported Part 64 Balances (A)**	**Balances Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Land and Support Accumulated Depreciation (Account 3100-2110)[10]	$3,832,902	$4,079,855	($246,953)
Central Office Equipment (COE) Switching Accumulated Depreciation (Account 3100-2210)[11]	$226,489	$264,341	($37,852)
COE Transmission Accumulated Depreciation (Account 3100-2230)[12]	$11,491,563	$11,949,959	($458,396)
CWF Accumulated Depreciation (Account 3100-2410)[13]	$33,946,289	$34,049,272	($102,983)

[6] *See* 47 C.F.R. § 32.2422 (2021).
[7] *See* 47 C.F.R. § 32.2411 (2021).
[8] *Id.* at footnote 6.
[9] *Id.* at footnote 7.
[10] *See* 47 C.F.R. § 32.3100(a)(b) (2021).
[11] *Id.* at footnote 10.
[12] *Id.* at footnote 10.
[13] *Id* at footnote 10.

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	**As Reported Part 64 Balances (A)**	**Balances Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Depreciation Expense – Land and Support (Account 6561-2110)[14]	$231,946	$478,899	($246,953)
Depreciation Expense – COE Switching (Account 6561-2210)[15]	$27,701	$65,553	($37,852)
Depreciation Expense – COE Transmission (Account 6561-2230)[16]	$1,570,030	$2,028,426	($458,396)
Depreciation Expense – CWF (Account 6561-2410)[17]	$3,151,488	$3,254,471	($102,983)

By using an incorrect methodology, the Beneficiary understated its depreciation expense for the affected Land & Support Assets, Central Office Equipment (COE) Switching, COE Transmission, and CWF accounts. Additionally, as a result of using the incorrect depreciation rate for the Underground Fiber Optic cable account (account 2422.1) and not updating the general ledger for the depreciation related to the Tower (poles) account (account 2411.1), the associated depreciation and accumulated depreciation account balances reported for High Cost program purposes were incorrect.

Cause

The Beneficiary did not have adequate financial management systems in place to ensure that it 1) consistently used the FCC-approved depreciation methodology, 2) used the correct state mandated rates, and 3) accurately calculated and recorded depreciation expenses and accumulated depreciation in its general ledger to reflect fully depreciated assets. Per the Beneficiary,[18] these errors occurred due to the following:

- *"In regards to the Depreciation Method, when most accounts were initially set up in the accounting software, the Composite Unit Depreciation Method was used to calculate depreciation instead of the Composite Account Depreciation method."*
- *"In regards to the incorrect rate being used for a/c 2422.1, this was an oversight."*
- *"In regards to account 2411.1, the Asset Management Module in their software shows the account as fully depreciated even though the GL does not."*

[14] *See* 47 C.F.R. § 32.6561 (2021).
[15] *Id.* at footnote 14.
[16] *Id.* at footnote 14.
[17] *Id*. at footnote 14.
[18] Per Beneficiary's Summary of Exceptions response.

Effect
We calculated the monetary effect on the Beneficiary's High Cost program filing by adjusting the CAF BLS and HCL algorithms to add the understated account balances identified in the "Recalculation of Part 64 Balances" table above for the filing period ending December 31, 2021. We summarized the impact of this finding relative to disbursements made from the High Cost program for the 12-month period ending December 31, 2023, in the table below.

Support Type	Monetary Effect
CAF BLS	($266,284)
HCL	($134,400)
CAF ICC	$0
Total	**($400,684)**[19]

Recommendations
We recommend that the Beneficiary:

- Ensure its financial management systems are configured to (1) calculate depreciation for all applicable asset accounts in compliance with the FCC-approved methodology, (2) ensure the state regulated depreciation rates are used for all applicable depreciation calculations and (3) ensure depreciation and accumulated depreciation entries have been properly posted to the general ledger to accurately reflect data reported to USAC for High Cost program support purposes and comply with the FCC Rules.
- Refile its cost studies for current open periods to amend depreciation and accumulated depreciation balances to align with the FCC rules.

The Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/appeals/.

Beneficiary Response
The Beneficiary agrees that, at the time most accounts were originally established within the accounting software, the Composite Unit Depreciation Method was applied in error in lieu of the Composite Account Depreciation Method. The Beneficiary further acknowledges that an incorrect depreciation rate was inadvertently applied to account 2422.1, and that depreciation expense should have been recorded for account 2411.1 during the period under review, as that account had not yet been fully depreciated. The Beneficiary shall review and update its depreciation policies and procedures to ensure that the accounting system is appropriately configured to calculate depreciation for all applicable asset accounts using the FCC-approved methodology, that applicable state-regulated depreciation rates are applied consistently, and that depreciation expense and accumulated depreciation are accurately calculated and properly recorded in the general ledger in accordance with applicable accounting standards and the FCC rules.[20]

[19] *Id*. at footnote 2.
[20] Beneficiary authored response received 1/23/26

Sikich Response
As the Beneficiary agrees with our finding, our position has not changed. However, because the Beneficiary also noted it would make corrections to future periods, Sikich added a recommendation that the Beneficiary refile its cost studies for current open periods to amend depreciation and accumulated depreciation balances to align with the FCC rules.

Additionally, Sikich makes note to USAC management that this finding has likely occurred in prior filing periods and filing period(s) subsequent to the current audit period, but before recognition by the Beneficiary.

Finding No. 2, 47 C.F.R. § 32.27 (c) (2021) and 47 C.F.R § 64.901 (2021) - Incorrect Pricing of Affiliate Transactions and Inaccurate Cost Study Adjustment

We obtained and reviewed the Beneficiary's general ledger, related-party (affiliate) transaction listing, and cost study balances to determine whether the Beneficiary reported its affiliate transactions in compliance with the FCC Rules — including a non-statistical sample of eight related-party transactions totaling to $61,003 for High Cost program purposes. In accordance with the FCC rules, affiliate transactions for services less than the $500K threshold are to be priced at Fully Distributed Cost.[21] The FCC Rules also require that carriers separate their regulated costs from nonregulated costs using the attributable cost method of cost allocation.[22] Further, carriers must follow certain principles when assigning or allocating costs to regulated and nonregulated activities.[23]

Based on our review of these records, we determined the Beneficiary used the Fair Market Value pricing method instead of the Fully Distributed Cost pricing method required by the FCC for one sample related to leased fiber between the Beneficiary and its affiliate CLEC. This use of the incorrect pricing method resulted in an overstatement of revenue that was subsequently recovered against expense Part 32 Account 6423 Buried Cable Expense in a cost study adjustment, causing it to be inaccurately stated.

In the table below, we summarize the effect of using the incorrect affiliate pricing method on the account balance reported for High Cost program support purposes.

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	As Reported Part 64 Balance (A)	Balance Supported by Beneficiary Records (B)	Variance Overstatement/ (Understatement) (A-B)
CWF Expense (Account 6410)	$779,895	$816,385	($36,490)

Cause

[21] See 47 C.F.R. § 32.27(c)(3) (2021).
[22] *See* 47 C.F.R. § 64.901 (2021).
[23] *Id*. at footnote 22.

The Beneficiary lacked adequate policies and procedures to ensure transactions with its affiliated CLEC were properly valued in accordance with the FCC Rules.

Effect
We calculated the monetary effect on the Beneficiary's High Cost program support filing by adjusting the CAF BLS and HCL algorithms to add in the underreported account balance amount of $36,490 to Account 6410 CWF Expense in the Beneficiary's High Cost program support filing for the period ending December 31, 2021. We summarized the impact of this finding relative to disbursements made from the High Cost program for the 12-month period ending December 31, 2023, in the table below.

Support Type	Monetary Effect
CAF BLS	($19,088)
HCL	($12,996)
CAF ICC	$0
Total	**($32,084)**[24]

Recommendations
We recommend that the Beneficiary implement policies and procedures designed to ensure it records affiliate transactions in accordance with the FCC Rules. Specifically, the Beneficiary should ensure that its policies and procedures are designed to ensure it applies the correct pricing methodology to all affiliate transactions by type and transaction threshold.

The Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/appeals/.

Beneficiary Response
The Beneficiary acknowledges that it initially relied on the higher of the market rate or fully distributed costs when establishing affiliate fiber-lease pricing. Following discussions with the audit team, the Beneficiary agrees that, based on the applicable transaction threshold, affiliate pricing should instead be established using fully distributed costs. Accordingly, the Beneficiary submitted its fully distributed cost calculation for the per-strand-mile rate to the audit team for purposes of recalculating the associated cost study adjustment. The Beneficiary will implement and maintain policies and procedures designed to ensure that affiliate transactions are recorded in accordance with the FCC Rules, including procedures to apply the appropriate pricing methodology based on transaction type and applicable thresholds. The Beneficiary will also conduct an annual review of affiliate transaction requirements to determine the appropriate methodology for affiliate pricing and confirm continued compliance with the FCC Rules.[25]

[24] *Id*. at footnote 2.
[25] *Id*. at footnote 20.

Sikich Response

As the Beneficiary agrees with our finding, our position has not changed.

The Beneficiary noted it would make corrections to future periods. However, Sikich makes note to USAC management that this finding has likely occurred in prior filing periods and filing period(s) subsequent to the current audit period, but before recognition by the Beneficiary.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 32.2000(g)(2) (2021)	*(2) Depreciation charges.* *(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges.* *(ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant.* *(iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month.* *(iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant.*

		Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.
1	47 C.F.R. § 32.2232 (2021)	*(a) This account shall include the original cost of equipment which is used to reduce the number of physical pairs otherwise required to serve a given number of subscribers by utilizing carrier systems, concentration stages or combinations of both. It shall include equipment that provides for simultaneous use of a number of interoffice channels on a single transmission path. This account shall also include equipment which is used for the amplification, modulation, regeneration, circuit patching, balancing or control of signals transmitted over interoffice communications transmission channels. This account shall include equipment which utilizes the message path to carry signaling information or which utilizes separate channels between switching offices to transmit signaling information independent of the subscribers' communication paths or transmission channels. This account shall also include the original cost of associated material used in the construction of such plant. Circuit equipment may be located in central offices, in manholes, on poles, in cabinets or huts, or at other company locations. The investment in circuit equipment shall be maintained in the following subaccounts: 2232.1 Electronic and 2232.2 Optical.* *(b) This subaccount 2232.1 Electronic shall include the original cost of electronic circuit equipment.* *(c) This subaccount 2232.2 Optical shall include the original cost of optical circuit equipment.* *(d) Circuit equipment that converts electronic signals to optical signals or optical signals to electronic signals shall be categorized as electronic.* *(e) This account excludes carrier and auxiliary equipment and patch bays which are includable in Account 2231.2, Other Radio Facilities. This account also excludes such equipment which is an integral component of a major unit which is classifiable to other accounts.*

		(f) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to digital and analog. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.
1	47 C.F.R. § 32 2422 (2021)	*(a) This account shall include the original cost of underground cable installed in conduit and of other material used in the construction of such plant. Subsidiary record categories, as defined below, are to be maintained for nonmetallic underground cable and metallic underground cable.* *(1)* **Nonmetallic cable.** *This subsidiary record category shall include the original cost of optical fiber cable and other associated material used in constructing a physical path for the transmission of telecommunications signals.* *(2)* **Metallic cable.** *This subsidiary record category shall include the original cost of single or paired conductor cable, wire and other associated material used in constructing a physical path for the transmission of telecommunications signals.* *(b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of cable and wire facilities shall be included in the account chargeable with such construction.* *(c) The cost of drop and block wires served by underground cable shall be included in Account 2423, Buried Cable.* *(d) The cost of cables leading from the main distributing frame or equivalent to central office equipment shall be included in the appropriate switching, transmission or other operations asset account.*
1	47 C.F.R. § 32.2411 (2021)	*This account shall include the original cost of poles, crossarms, guys and other material used in the construction of pole lines and shall include the cost of towers when not associated with buildings. This account shall also include the cost of clearing pole line routes and of tree trimming*

		but shall exclude the cost of maintaining previously cleared routes.
1	47 C.F.R. §32.3100(a)(b) (2021)	*(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.)*
1	47 C.F.R. §32.6561 (2021)	*This account shall include the depreciation expense of capitalized costs in Accounts 2112 through 2441, inclusive.*
2	47 C.F.R. § 32.27(c) (2021)	*(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost.* *(1) Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications*

		Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. *(2) Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.* *(3) Threshold. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.*
2	47 C.F.R. § 64.901 (2021)	*(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.* *(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.* *(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service.* *(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.*

		(3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: *(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.* *(ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.* *(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.* *(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.* *(c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.*

Attachment B

HC2025LR019

Manchester-Hartland Telephone Company

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

USAC Audit No. HC2025LR019

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CRITERIA 10

gka, p.c.
Certified Public Accountants
& Consultants

Member of the American Institute of Certified Public Accountants

EXECUTIVE SUMMARY

May 23, 2025

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

Dear Ms. Delmar:

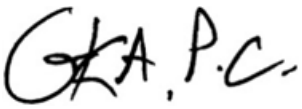
On behalf of the Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD), GKA, P.C. (GKA, we, our, and us) audited the compliance of Manchester-Hartland Telephone Company (the Beneficiary), study area code (SAC) 361426, for disbursements made for the year ended December 31, 2024, using the regulations set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, and orders governing the federal Universal Service High Cost Support Mechanism (High Cost program), as well as other program requirements (collectively, Federal Communications Commission (FCC) Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit. We conducted the audit fieldwork from March 27, 2025 to May 23, 2025.

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

Based on the test work performed, our audit disclosed one detailed audit finding (Finding), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period. GKA's determination is based on the circumstances in this audit and is neither binding nor limiting to any other past or future GKA, USAC, or FCC verification, audit, or investigation.

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.



Washington, DC
May 23, 2025

cc: Michelle Garber, USAC Interim Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect			Recommended Recovery[1]
	Connect America Fund Broadband Loop Support (CAF BLS)	Connect America Fund Intercarrier Compensation (CAF ICC)	Total	
Finding No. 1: 47 C.F.R §§ 32.2000(g)—Inaccurate Depreciation Calculation. The Beneficiary used average quarterly asset balances instead of the required average monthly asset balances to calculate depreciation expense and accumulated depreciation in violation of FCC Rules.	$3,472	$0	$3,472	$3,472
Total	**$3,472**	**$0**	**$3,472**	**$3,472**

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

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery for the High Cost program from the Beneficiary, for SAC 361426, in the amount noted in the table 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)	CAF ICC (B)	USAC Recovery Action (A) + (B) [2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$3,472	$0	$3,472	N/A
Mechanism Total	$3,472	**$0**	$3,472	N/A

[2] *Id.*

PURPOSE, SCOPE AND PROCEDURES

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

SCOPE
In the following chart, we summarize the High Cost program support that was included in the scope of this audit:

High Cost Program Support	Data Period	Disbursement Period	Disbursements Audited
CAF BLS	Calendar Year 2022	Calendar Year 2024	$52,284
CAF ICC	Calendar Year 2022	Calendar Year 2024	$62,958
		Total	**$115,242**

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

PROCEDURES
We performed the following procedures:

A. High Cost Program Support Amount

We recalculated the support that the Beneficiary received for each High Cost program component and determined that there were no more than nominal differences between the amounts received and those recorded in the High Cost program support system.[3]

[3] The 2011 base period amounts used to calculate High Cost program support disbursements for the audit period were not tested during this audit and, consistent with standard audit procedures for prior period data, were presumed to be accurate. This approach is in accordance with USAC's audit methodology, which typically focuses on the accuracy of current period reporting and supporting documentation, rather than re-auditing previously accepted base period figures. Additionally, while the Beneficiary received BLS funding for prior periods, these prior period adjustments were not subject to audit in the current review.

B. High Cost Program Process

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

C. Line Count Records

We obtained and examined the Beneficiary's subscriber listings. We used computer-assisted auditing techniques to analyze the data files and to determine whether the number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost program data filings.

D. Fixed Assets

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

E. 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.

F. 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.

DETAILED AUDIT FINDINGS

FINDING No. 1: 47 C.F.R § 32.2000(g)—**Inaccurate Depreciation Calculation**

CONDITION

The Beneficiary calculated depreciation expense using average quarterly asset balances rather than the average monthly asset balances required under FCC Rules. FCC Rules stipulate that depreciation expense must be based on average monthly asset balances, determined from the first and last day of each month, with accumulated depreciation recorded accordingly.[4]

We reviewed the Beneficiary's asset-level depreciation schedules to assess whether depreciation expense and accumulated depreciation were properly computed and reported for High Cost program support purposes. Our review identified methodological departures that resulted in inaccuracies in the reported depreciation expense and accumulated depreciation within the Beneficiary's High Cost program filings.

The table below summarizes the variances between depreciation expense calculated using average monthly asset balances and the amounts reported in Beneficiary's cost study:

Trial Balance Account Number	Trial Balance Account Title	Reported Amount [A]	Balance Supported By Testing [B]	Variance Overreported/ (Underreported) [C=B-A]
6561.1	Depreciation expense—vehicles	($265)	$ -	$ 265
6561.1	Depreciation expense—other work equipment—general	(423)	-	423
6561.1	Depreciation expense—computer equipment	(97)	-	97
6561.2	Depreciation expense—central office equipment— switching—new	24,871	24,585	(286)
6561.3	Depreciation expenses—circuit equipment—new	76,605	69,919	(6,686)
6561.3	Depreciation expense—circuit equipment—old	58,983	37,454	(21,529)
6561.5	Depreciation expense—cable and wire—buried cable	108,160	108,101	(59)
		$ 267,834	$ 240,059	($ 27,775)

[4] *See* 47 C.F.R § 32.2000(g).

CAUSE
The Beneficiary's data collection, reporting, and monitoring processes were not designed or implemented effectively to ensure accurate calculation of depreciation expense and accumulated depreciation for High Cost program support reporting purposes.

The Beneficiary provided the following explanation as to the cause of this condition:
Upon review, we do not have a monthly depreciation schedule available. The books are done on a quarterly basis by the bookkeeper, who books a monthly estimate for depreciation. The mass asset depreciation calculation and estimated amounts are reviewed by the financial auditor and adjusted to their schedule totals/calculation at the end of the quarter and at year end.

EFFECT
We calculated the monetary effect of this finding by subtracting the value of the overreported amounts from the total amounts for depreciation expense reported by the Beneficiary in its respective accounts in its High Cost program filings, and adding the value of the underreported amounts to the total amounts for depreciation expense reported by the Beneficiary in its respective accounts in its High Cost program filings, as noted in the Condition. As a result, we determined that there were improper High Cost program support disbursements totaling $3,472.

RECOMMENDATION
We recommend that USAC Management recover the amounts identified in the Effect section above.

To prevent recurrence, we further recommend that the Beneficiary implement the following corrective actions:

- Adopt and document a standardized depreciation methodology that computes depreciation expense on a straight-line basis using average monthly asset balances for each asset account group, in accordance with 47 C.F.R. § 32.2000(g)(2)(iii).

- Provide targeted training to accounting and regulatory staff on FCC Part 32 depreciation requirements and High Cost program support reporting requirements.

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
Manchester-Hartland Telephone Company (Beneficiary) agrees with the audit findings and recommendations related to the improper depreciation calculation identified during the audit and testing process. Manchester-Hartland Telephone Company will work with the

appropriate internal and external parties to implement a consistent depreciation methodology in compliance with FCC Part 32 rules. In addition, the Company will enhance internal controls and provide additional training related to FCC Part 32 accounting requirements and High Cost program support reporting to ensure accurate and compliant depreciation calculations.

CRITERIA

- 47 C.F.R. § 32.2000(g)(2)(iii)

  In accordance with 47 C.F.R. § 32.2000(g)(2)(iii), current monthly depreciation charges must be calculated by applying one-twelfth of the annual depreciation rate to the average monthly balance of the associated plant category. The average monthly balance is determined using the balances on the first and last day of the month.

This concludes the report.

Summary of the High Cost Support Mechanism Beneficiary Audit Reports Released: July 2026.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment C Wilkes Telephone Membership Corporation	11	• **Misclassified Expenses –** The Beneficiary did not deduct affiliate rent revenues from operating expenses. • **Improper Inclusion of Non-Regulated Amounts –** The Beneficiary included five expenses in its filing submissions that were not related to regulated activities.	$9,060,756	$577,530	$577,530	N
Attachment D Lackawaxen Telecommunications Services, Inc.	0	• Not applicable.	$173,664	$0	$0	N/A
Attachment E Montrose Mutual Telephone Company	1	• No significant findings.	$3,886,304	$13,308	$13,308	N
Attachment F Surry Telephone Membership Corporation	0	• Not applicable.	$3,318,678	$0	$0	N/A
Total	**12**		**$16,439,402**	**$590,838**	**$590,838**	

Attachment C

HC2024LR011

Wilkes Telephone Membership Corporation

Audit ID: HC2024LR011

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 22, 2026

KPMG LLP
8350 Broad Street #900
McLean, VA 22102

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CONCLUSION 32

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

EXECUTIVE SUMMARY

July 22, 2026

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 Wilkes Telephone Membership Corporation ("Wilkes" or "the Beneficiary") Study Area Code ("SAC") No. 230510 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 22, 2026.

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 Universal Service High Cost program, including those set forth in 47 Code of Federal Regulations (C.F.R.") Parts 32, 36, 51, 54, 64 and 69 (collectively "the FCC Rules"), relative to disbursements, of $9,060,756, made from the High Cost program during the twelve-month period ended December 31, 2022.

Compliance with the 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 11 audit findings as discussed in the Audit Results and Recovery Action section. For the purposes 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's determination is based on the facts and circumstances of this audit and is neither binding nor limiting to any other past or future KPMG, USAC, or FCC verification, audit, or investigation.

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

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

Sincerely,

KPMG LLP

cc: Michelle Garber, USAC Interim Chief Executive Officer
Victor Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect Overpayment (Underpayment)[1]				Recommended[2] Recovery
	HCL	CAF BLS	CAF ICC[3]	Total	
HC2024LR011-F01: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation – The Beneficiary utilized ending monthly asset balances rather than average monthly asset balances to calculate Depreciation Expense and Accumulated Depreciation as prescribed by the FCC Rules.	$2,196	$3,524	N/A	$5,720	$5,720
HC2024LR011-F02: 47 C.F.R. § 32.6112(b), 32.6114(b), 32.6512(b) – Inaccurate Expense Clearings – The Beneficiary improperly cleared overhead expense amounts using incorrect methods and not as prescribed by the FCC Rules.	$165	$4,690	N/A	$4,855	$4,855
HC2024LR011-F03: 47 C.F.R. § 54.903(a)(4) – Inaccurate Revenues – The Beneficiary's annual Integrated Services Digital Network ("ISDN") revenues were understated on the Form 509.	N/A	$1,496	N/A	$1,496	$1,496
HC2024LR011-F04: 47 C.F.R. § 54.320(b) – Inaccurate Revenues – Access Recovery Charge – The Beneficiary's Access Recovery Charge ("ARC") revenues were understated on the Connect America Fund Intercarrier Compensation ("CAF ICC") form.	N/A	N/A	$2,935	$2,935	$2,935

[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 High Cost program does not pay additional support in the event of a finding resulting in an underpayment; however, the High Cost program will net findings resulting in underpayment with findings resulting in an overpayment.

[3] The CAF ICC support 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 which corresponds to the 2020 – 2021 program year.

Audit Results	Monetary Effect Overpayment (Underpayment)[1]				Recommended[2] Recovery
	HCL	CAF BLS	CAF ICC[3]	Total	
HC2024LR011-F05: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Counts – The Beneficiary reported 18 more lines on the 2021-1 High Cost Loop ("HCL") Form compared to the billing register for the respective period.	$(7,483)	N/A	N/A	$(7,483)	$0
HC2024LR011-F06: 47 C.F.R. § 32.2(a) and (b) – Misclassified Expenses – The Beneficiary did not deduct affiliate rent revenues from operating expenses in the appropriate Part 32 accounts.	$110,768	$190,315	N/A	$301,083	$301,083
HC2024LR011-F07: 47 C.F.R. § 64.901 – Improper Allocation Methodology – The Beneficiary inaccurately included expenses related to its affiliates in the Universal Service Fund ("USF") filings.	$21,340	$26,715	N/A	$48,055	$48,055
HC2024LR011-F08: 47 C.F.R. § 54.7 – Support Not Used for Intended Purposes – The Beneficiary included one expense for a tax penalty in the USF filings, which was ineligible and not related to regulated activity.	$1,244	$1,520	N/A	$2,764	$2,764
HC2024LR011-F09: 47 C.F.R. § 64.901 – Improper Inclusion of Non-Regulated Amounts – The Beneficiary included five expenses in the USF filings, which were not related to regulated activities.	$72,876	$90,829	N/A	$163,705	$163,705
HC2024LR011-F10: 47 C.F.R. § 32.2(a) and (b) – Misclassified Expenses – The Beneficiary included two expenses in the USF filings, which were not recorded in the appropriate Part 32 accounts.	$249	$13,138	N/A	$13,387	$13,387
HC2024LR011-F11: 47 C.F.R. §54.320(b) – Inaccurate Expenses – The Beneficiary overstated one expense account in the USF filings.	$18,461	$22,552	N/A	$41,013	$41,013
Total Net Monetary Effect	**$219,816**	**$354,779**	**$2,935**	**$577,530**	**$585,013**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 230510, for the High Cost program support in the amount noted in the table below.

The Beneficiary must implement policies and procedures necessary to comply with the FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with the 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	$2,196	$3,524	N/A	$5,720	N/A
Finding #2	$165	$4,690	N/A	$4,855	N/A
Finding #3	N/A	$1,496	N/A	$1,496	N/A
Finding #4	N/A	N/A	$2,935	$2,935	N/A
Finding #5	($7,483)	N/A	N/A	($7,483)	N/A
Finding #6	$110,768	$190,315	N/A	$301,083	N/A
Finding #7	$21,340	$26,715	N/A	$48,055	N/A
Finding #8	$1,244	$1,520	N/A	$2,764	N/A
Finding #9	$72,876	$90,829	N/A	$163,705	N/A
Finding #10	$249	$13,138	N/A	$13,387	N/A
Finding #11	$18,461	$22,552	N/A	$41,013	N/A
Mechanism Total	**$219,816**	**$354,779**	**$2,935**	**$577,530**	**N/A**

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 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 components of the High Cost Program Support Mechanism 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.
2. Connect America Fund Intercarrier 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

Wilkes Telephone Membership Corporation ("Wilkes") (SAC No. 230510) located in North Carolina serves over 10,000 customers. Wilkes is a cooperative telephone company which provides telephone services to its members located in North Carolina.

As of the time of the audit, the cooperative had three wholly owned subsidiaries: Wilkes Communications, Inc. (wireline Competitive Local Exchange Carrier ("CLEC"), Tri-County Communications, Inc, (wireline CLEC) and Riverstreet Management Services, LLC, a management/holding company that manages five wireline ILECs, three wireless CLECs, and two wireline CLECs serving customers across Virginia and North Carolina.

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	$6,548,004
CAF ICC	$658,308
HCL	$1,854,444
Total	**$9,060,756**

Source: USAC

The Beneficiary received High Cost program 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 Rules as well as specified in FCC Orders governing federal USF support for the High Cost program relative to disbursements, of $9,060,756, 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 the SAC noted in the Beneficiary overview section above.[4]

Our performance audit as defined by the FCC for High Cost program 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 for 2022, 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 this 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 47 C.F.R. 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 19 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 an MUS methodology to select 39 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 that were reviewed for proper 47 C.F.R. Part 32 account coding and categorization by expense type along with the nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

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

6. **COE Categorization**

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

7. **C&WF Categorization**

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

[6] 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 47 C.F.R. Part 32 requirements.

9. **Taxes**

   KPMG determined that Wilkes was incorporated and operated as a political subdivision of the State of North Carolina; therefore, the Beneficiary is not subject to state and federal income tax laws and is not required to file annual tax reports. KPMG performed an evaluation of the applicable High Cost program 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. These procedures 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. We also assessed the reasonableness of the allocation methods and corresponding data inputs used to calculate the material factors and recalculated each of the material factors.

11. **Affiliate Transactions**

    KPMG performed procedures to assess the reasonableness of affiliate transactions that included management fees incurred during 2020. These procedures included identifying affiliate transactions by reviewing audited financial statements, trial balance, and intercompany accounts, and conducting inquiries, then using attribute sampling to select a sample of the different types of affiliate transactions for testing. For the 5 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 47 C.F.R. 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 47 C.F.R. Part 64 cost allocation, 47 C.F.R. Part 36, and 47 C.F.R. 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 the FCC requirements. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

HC2024LR011-F01: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the G/L and depreciation schedules for material accounts 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 the FCC Rules[7] for the period of January 1, 2020, to December 31, 2020.

Differences were 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 as follows:

Account Description	Account Balance Reported to NECA	Balance Supported by Testing	$ Variance
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$17,234,335	$17,237,064	$2,729
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$31,793,804	$31,784,692	($9,112)
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$1,131,000	$1,133,729	$2,729
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$2,898,384	$2,889,272	($9,112)

CAUSE

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

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the condition above to or from the respective accounts or line items on the High Cost program 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 $5,720 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$2,196
CAF BLS	$3,524
CAF ICC	N/A
Total	**$5,720**

[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.

RECOMMENDATION

KPMG recommends that USAC Management seek recovery for the amount identified in the Effect Section above.

KPMG also recommends that the Beneficiary enhance its preparation, review, and approval processes governing the calculation of depreciation to ensure compliance with the 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/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the finding. During the audit period, depreciation expense was calculated using ending monthly asset balances rather than average monthly asset balances as required by Part 32. Since the audit period, the Beneficiary has revised its depreciation process to calculate depreciation using average monthly asset balances. The Beneficiary has also implemented review procedures to confirm the accuracy of depreciation calculations prior to inclusion in regulatory reporting.

HC2024LR011-F02: 47 C.F.R. § 32.6112(b), 32.6114(b), 32.6512(b) – Inaccurate Expense Clearings

CONDITION

KPMG examined the expense clearing reports for the judgmentally selected sample months of March 2020 for Account 6112 – Motor Vehicle Expense, January 2020 for Account 6114 – Other Work Equipment Expense, and March 2020 for Account 6512 – Provisioning Expense, Account 6534 – Plant Operations Administrative Expense and Account 6535 – Engineering Expense and noted the following:

a) The Beneficiary improperly cleared overhead expense amounts from Account 6112 – Motor Vehicle Expense and Account 6114 – Other Work Equipment Expense to plant specific and plant non-specific accounts versus only plant specific accounts as prescribed by the FCC Rules.[8]

b) The Beneficiary improperly cleared overhead expense amounts from Account 6512 – Provisioning Expense based on the direct labor hours versus cost of materials as prescribed by the FCC Rules.[8]

KPMG recalculated clearings of the selected overhead expense accounts and summarized the variances for the selected sample months relative to the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509 as follows:

Account 6112 – Motor Vehicle Expense (March 2020)

Account Description	Monthly Clearing Component of Account Balance Reported to NECA	Balance Supported by Testing	$ Variance
Account 2003 – Telecom Plant Under Construction	$ 5,039	$9,610	$4,571
Account 6120 – General Support Expense	$1,200	$2,288	$1,088
Account 6210 – Central Office Switching Expense	$2,922	$5,574	$2,652
Account 6230 – Central Office Transmission Expense	$1,756	$3,349	$1,593
Account 6320 – Inside Wire Expense	$139	$265	$126

[8] See 47 C.F.R. § 32.6112(b) (2020); 47 C.F.R. § 32.6114(b) (2020); 47 C.F.R. § 32.6512(b) (2020) in the criteria section of the report.

Account 6410 – C&WF Expense	$5,697	$10,865	$5,168
Account 6510 – Other Property, Plant and Equipment Expenses	$971	$0	($971)
Account 6530 – Network Operations Expense	$3,157	$0	($3,157)
Account 6610 – Marketing Expense	$2,913	$0	($2,913)
Account 6620 – Customer Services Expense	$3,879	$0	($3,879)
Account 6720 – General and Administrative Expense	$4,278	$0	($4,278)
Total	**$31,951**	**$31,951**	**$0**

Account 6114 – Other Work Equipment Expense (January 2020)

Account Description	Monthly Clearing Component of Account Balance Reported to NECA	Balance Supported by Testing	$ Variance
Account 2003 – Telecom Plant Under Construction	$ 1,390	$2,873	$1,483
Account 6120 – General Support Expense	$447	$923	$476
Account 6210 – Central Office Switching Expense	$1,354	$2,799	$1,445
Account 6230 – Central Office Transmission Expense	$1,078	$2,227	$1,149
Account 6320 – Inside Wire Expense	$77	$160	$83
Account 6410 – C&WF Expense	$2,351	$4,859	$2,508
Account 6510 – Other Property, Plant and Equipment Expenses	$326	$0	($326)
Account 6530 – Network Operations Expense	$1,639	$0	($1,639)
Account 6610 – Marketing Expense	$1,546	$0	($1,546)
Account 6620 – Customer Services Expense	$1,500	$0	($1,500)
Account 6720 – General and Administrative Expense	$2,133	$0	($2,133)
Total	**$13,841**	**$13,841**	**$0**

Account 6512 – Provisioning Expense (March 2020)

Account Description	Monthly Clearing Component of Account Balance Reported to NECA	Balance Supported by Testing	$ Variance
Account 2003 – Telecom Plant Under Construction	$ 1,953	$12,502	$10,549
Account 6120 – General Support Expense	$855	$0	($855)
Account 6210 – Central Office Switching Expense	$1,997	$1,004	($993)
Account 6230 – Central Office Transmission Expense	$1,907	$1,678	($229)
Account 6320 – Inside Wire Expense	$203	$0	($203)
Account 6410 – C&WF Expense	$4,216	$5,712	$1,496
Account 6530 – Network Operations Expense	$2,239	$0	($2,239)
Account 6610 – Marketing Expense	$1,873	$0	($1,873)
Account 6620 – Customer Services Expense	$2,385	$0	($2,385)
Account 6720 – General and Administrative Expense	$3,268	$0	($3,268)
Total	**$20,896**	**$20,896**	**$0**

CAUSE

The preparation, review, and approval processes governing expense clearing amounts did not detect the allocation of amounts based on incorrect allocation methods.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the condition above to or from the respective accounts or line items on the High Cost program 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 overpayment of $4,855 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$165
CAF BLS	$4,690
CAF ICC	N/A
Total	**$4,855**

RECOMMENDATION

KPMG recommends that USAC Management seek recovery for the amount identified in the Effect Section above.

KPMG also recommends that the Beneficiary evaluate and update its methodology used for expense clearings to ensure application of the appropriate method and to the appropriate accounts. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the finding. During the audit period, certain overhead expense clearings did not comply with Part 32 requirements, including (i) the clearing of Accounts 6112 and 6114 to non-plant-specific plant accounts and (ii) the clearing of provisioning expenses recorded in Account 6512 using labor hours rather than a materials-based methodology.

Since the audit period, the Beneficiary has revised its overhead clearing methodologies to ensure compliance with Part 32. The Beneficiary has implemented review procedures to verify that clearing destinations and allocation bases are appropriate prior to inclusion in regulatory reporting.

HC2024LR011-F03: 47 C.F.R. § 54.903(a)(4) – Inaccurate Revenues

CONDITION

KPMG obtained and examined the Beneficiary's G/L and Form 509 to determine whether the Beneficiary reported its revenues accurately for High Cost program purposes. We noted the Beneficiary's total annual Integrated Services Digital Network ("ISDN") revenues on Form 509 did not agree to the G/L and were understated on 2020 Form 509[9] as noted below.

ISDN Revenues Reported Per Form 509	ISDN Revenues Supported by Beneficiary's G/L	$ Variance
$852	$2,348	$1,496

CAUSE

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

EFFECT

KPMG calculated the monetary impact of this finding by adding the variance noted in the condition above to the respective account or line item on the High Cost program form 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 overpayment of $1,496 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	N/A
CAF BLS	$1,496
CAF ICC	N/A
Total	**$1,496**

RECOMMENDATION

KPMG recommends that USAC Management seek recovery for the amount identified in the Effect Section above.

KPMG also recommends that the Beneficiary enhance its controls and procedures related to preparation, review, and reporting of revenues on the Form 509 to validate revenues agree to the G/L. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges that ISDN revenues reported on the 2020 Form 509 did not tie to the general ledger. Since the period under review, the company has elected EACAM support and BDS, and as a result, is no longer required to report 509 data. While the company acknowledges the finding, the company is working to review and update procedures going forward as required.

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

HC2024LR011-F04: 47 C.F.R. § 54.320(b) – Inaccurate Revenues – Access Recovery Charge

CONDITION

KPMG obtained and examined the Beneficiary's G/L and 2020 CAF ICC Form to determine whether the Beneficiary reported ARC revenues accurately for High Cost program purposes. The ARC revenue amounts on the 2020 CAF ICC Form did not tie out to the G/L and were understated on 2020 CAF ICC Form[10] as noted below.

ARC Revenues Reported Per CAF ICC Form ($)	ARC Revenues Supported by Beneficiary's G/L ($)	$ Variance
$27,848	$30,783	$2,935

CAUSE

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

EFFECT

KPMG calculated the monetary impact of this finding by adding the variance noted in the condition above to the respective account or line item on the High Cost program form 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 overpayment of $2,935 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	N/A
CAF BLS	N/A
CAF ICC	$2,935
Total	**$2,935**

RECOMMENDATION

KPMG recommends that USAC Management seek recovery for the amount identified in the Effect Section above.

KPMG also recommends that the Beneficiary should enhance its controls and procedures related to preparation, review, and reporting of revenue amounts on the CAF ICC Form to validate revenues agree to G/L. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the understatement of ARC revenues reported on the CAF ICC form during the audit period. Since the audit period, the Beneficiary has instituted a reconciliation between the CAF ICC form and the general ledger, including review procedures to ensure reported amounts agree to accounting records prior to submission of the CAF ICC.

[10] See 47 C.F.R. § 51.917(d)(1)(vii) and 47 C.F.R § 54.320(b) (2020) in the criteria of the report.

HC2024LR011-F05: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Counts

CONDITION

KPMG compared the Total Loops & Category 1.3 Loops on 2021-1 HCL Form to the Subscriber Listing support for the twelve-month period ended December 31, 2020. During our review, we noted that the Beneficiary did not accurately report the Category 1.3 Loops and Total Loops for the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form[11] as follows:

HCL Form Line	Loops Reported to NECA	Loops Reported by Testing	Variance
Category 1.3 Loops	6,101	6,083	(18)
Total Loops	6,101	6,083	(18)

CAUSE

The Beneficiary did not have adequate processes in place governing the proper recording and reporting of loops as prescribed by the FCC Rules and included an incorrect quantity of official lines in the 2021-1 HCL Form.

EFFECT

KPMG calculated the monetary impact of this finding by subtracting the variance noted in the condition above from the respective accounts or line items on the High Cost program form 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 underpayment of $7,483 as summarized below[12]:

Support Type	Monetary Effect & Recommended Recovery
HCL	($7,483)
CAF BLS	N/A
CAF ICC	N/A
Total	**($7,483)**

RECOMMENDATION

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

BENEFICIARY RESPONSE

The Beneficiary acknowledges the variance in reported loop counts identified during the audit period. Since the audit period, the Beneficiary has aligned its loop reporting process to the underlying billing register and implemented review procedures to verify the accuracy and completeness of reported loop counts prior to submission. Since the period under review, the company has elected EACAM support and BDS, and as a result, is no longer required to report HCLS data.

[11] See 47 C.F.R. § 54.1305(i), 47 C.F.R. § 54.320(b), 47 C.F.R. § 32.12(b) (2020) in the criteria of the report.

[12] The High Cost program does not pay additional support in the event of a finding resulting in an underpayment; however, the High Cost program will net findings resulting in underpayment with findings resulting in an overpayment. See the table in the USAC Management Response section for netting of findings.

HC2024LR011-F06: 47 C.F.R. § 32.2(a) and (b) – Misclassified Expenses

CONDITION

KPMG examined the Beneficiary's G/L, Part 64 Cost Study, and Cost Allocation methodology to determine whether the Beneficiary reported its balances accurately for High Cost program purposes. The Beneficiary collected rent revenue from affiliates but did not deduct the rent revenue from operating expenses prior to input of data into the 2021-1 HCL Form and Form 509. Further, the Beneficiary did not reduce appropriate asset or operating expense account (Account 6120 – General Support Expense) to offset the collected rent revenues from its affiliates for the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509 as follows:[13]

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	$ Variance
Account 6120 – General Support Expense	$770,507	$345,842	($424,665)

CAUSE

The preparation, review, and approval processes governing the adjusting and reporting of expense amounts for rent revenues from affiliates were not sufficient to detect the necessary adjustments to expense amounts prior to the High Cost program filings.

EFFECT

KPMG calculated the monetary impact of this finding by subtracting the variance noted in the condition above from the respective account or line item on the High Cost program 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 overpayment of $301,083 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$110,768
CAF BLS	$190,315
CAF ICC	N/A
Total	**$301,083**

RECOMMENDATION

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

KPMG also recommends that the Beneficiary enhance its process of validating Part 64 cost allocations for associated rent revenues prior to reporting expense balances on the High Cost program forms to ensure compliance with the 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/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges that affiliate rent revenue was not netted against operating expenses during the audit year, resulting in an overstatement of expenses in Account 6120. Since the audit period, the Beneficiary has addressed this matter going forward.

[13] See 47 C.F.R. § 32.2(a) and (b); 47 C.F.R. § 32.5200(a); 47 C.F.R. § 32.6121(a) and 47 C.F.R. § 64.901 (2020) in the criteria section of the report.

HC2024LR011-F07: 47 C.F.R § 64.901– Improper Allocation Methodology

CONDITION

KPMG examined the Beneficiary's allocation methodology to allocate costs among the Beneficiary and its affiliates to determine whether the Beneficiary reported its balances accurately for High Cost program purposes. The Beneficiary used multiple data points such as access lines, total customers, gross plant (regulated and non-regulated), depreciation reserve (regulated and non-regulated), labor hours, employee count etc. to develop factors to allocate costs/expenses among the Beneficiary and its affiliates. The choice of factors for each category of joint and common costs was determined by the management based on the primary driver of those costs. KPMG judgmentally sampled and tested five allocation factors and related expense amounts that were further allocated among the Beneficiary and its affiliates and identified the following:

A) Costs/Expense amounts used to allocate amounts were inaccurately calculated: Based on the provided allocation methodology and calculations, KPMG noted that the costs for General Purpose Computers and Executive Expenses were incorrectly calculated.
B) Allocation factors were utilized from prior periods: For the first three quarters of 2020, the Beneficiary used the respective quarter's allocation factors. However, in the fourth quarter of 2020, the Beneficiary utilized the third quarter's allocation factors in error.

KPMG recalculated the expense amounts to be allocated among the Beneficiary and its affiliates using appropriate allocation factors and noted the following related to the Beneficiary's High Cost program filings for the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509[14] as summarized below:

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	$ Variance
Account 6120 – General Support Expense	$770,507	$767,979	($2,528)
Account 6530 – Network Operations Expense	$429,302	$426,675	($2,627)
Account 6710 – Executive and Planning Expense	$859,188	$791,786	($67,402)
Account 6720 – General and Administrative Expense	$1,036,326	$1,027,071	($9,255)

CAUSE

The Beneficiary did not have adequate processes in place governing the proper recording and reviewing of cost allocations of expense amounts between the Beneficiary and its affiliates, and allocation methodologies as prescribed by the FCC rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the condition above to or from the respective accounts or line items on the High Cost program 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 overpayment of $48,055 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$21,340
CAF BLS	$26,715
CAF ICC	N/A
Total	**$48,055**

[14] See 47 C.F.R. § 54.320(b), 47 C.F.R. § 64.901 (2020) in the criteria of the report.

RECOMMENDATION

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

KPMG also recommends that the Beneficiary enhance its controls and procedures related to the calculation and review of expense amounts and allocation of costs among the Beneficiary and its affiliates to validate only appropriate costs are included in the 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/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the finding. During the audit period, allocation factors used in the Part 64 cost allocation model were not updated timely, resulting in misallocated affiliate costs. Since the audit period, the Beneficiary has updated its Part 64 allocation model to use current allocation factors and implemented review procedures to ensure allocation factors are updated, validated, and approved prior to use.

HC2024LR011-F08: 47 C.F.R. § 54.7 – Support Not Used for Intended Purposes

CONDITION

KPMG statistically sampled and tested 39 expense transactions to determine whether the Beneficiary reported its expense account balances accurately for High Cost program purposes. The Beneficiary included one ineligible expense related to a tax penalty in the High Cost program filings which KPMG noted is obtaining support not used for intended purposes according to FCC Rules.[15]

The total amount of the one expense item for the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509, is as summarized below:

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	$ Variance
Account 6720 – General and Administrative Expenses	$1,036,326	$1,031,557	($4,769)

CAUSE

The Beneficiary did not have adequate processes in place governing the proper recording and reporting of eligible expense amounts for purposes of USF disbursements as prescribed by the FCC rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the condition above to or from the respective accounts or line items on the High Cost program 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 overpayment of $2,764 as summarized below:

[15] See 47 C.F.R. § 54.7(a) and (c)(5) (2020) in the criteria of the report.

Support Type	Monetary Effect & Recommended Recovery
HCL	$1,244
CAF BLS	$1,520
CAF ICC	N/A
Total	**$2,764**

RECOMMENDATION

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

KPMG also recommends that the Beneficiary enhance its process of preparation, review, and approval of expense transactions to ensure only eligible/allowable and regulated expense balances are reported for High Cost program purposes. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the finding and agrees that tax penalties are ineligible for recovery under FCC rules. Since the audit period, the Beneficiary has implemented policies and procedures for the review of unusual and non-recurring expenses to ensure ineligible costs are properly identified, recorded, and excluded from regulatory filings.

HC2024LR011-F09: 47 C.F.R. § 64.901 – Improper Inclusion of Non-Regulated Amounts

CONDITION

KPMG statistically sampled and tested 39 expense transactions to determine whether the Beneficiary reported its expense account balances accurately for High Cost program purposes. The Beneficiary inappropriately included five non-regulated expenses in the High Cost program Filings versus excluding in accordance with the FCC Rules.[16] Three expense samples were related to the Beneficiary's affiliates legal fees, one expense was related to the close out of expenses for a buried cable work order specific to a Beneficiary affiliate and one expense sample related to non-regulated video services. All five non-regulated expenses were improperly included in the Beneficiary's High Cost program filings.

The total amount of the expense items relevant to the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509, is as follows:

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	$ Variance
Account 6230 – Central Office Transmission Expense	$1,506,608	$1,388,852	($117,756)
Account 6410 – Cable and Wire Facilities Expense	$1,631,184	$1,531,121	($100,063)
Account 6720 – General and Administrative Expenses	$1,036,326	$1,001,611	($34,715)

CAUSE

The Beneficiary did not have adequate processes in place governing the proper recording and reporting of regulated expense amounts for purposes of USF disbursements as prescribed by the FCC rules.

[16] See 47 C.F.R. § 64.901 (2020) in the criteria of the report.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the condition above to or from the respective accounts or line items on the High Cost program 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 overpayment of $163,705 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$72,876
CAF BLS	$90,829
CAF ICC	N/A
Total	**$163,705**

RECOMMENDATION

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

KPMG also recommends that the Beneficiary enhance its process of preparation, review, and approval of expense transactions to ensure only regulated expense balances are reported for High Cost program purposes. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the finding. Since the audit period, the Beneficiary has implemented control procedures to ensure expenses are coded to the correct affiliate and that non-regulated expenses, including non-regulated video expenses, are recorded to appropriate non-regulated accounts and excluded from regulated cost studies and filings.

HC2024LR011-F10: 47 C.F.R. § 32.2(a) and (b) – Misclassified Expenses

CONDITION

KPMG statistically sampled and tested 39 expense transactions to determine whether the Beneficiary reported its expense account balances accurately for High Cost program purposes. The Beneficiary misclassified two expense samples to the incorrect Part 32 accounts, which is not in compliance with the FCC Rules.[17] One of the expense samples was related to a post-retirement benefits adjustment that was incorrectly recorded entirely to Account 6410 (C&WF Expense) versus allocating it appropriately to different accounts based on the labor hours. The other expense transaction, an inventory adjustment associated with Fiber to the Home (FTTH), was incorrectly recorded in Account 6410 (C&WF Expense) instead of Account 6230 (Central Office Transmission Expense).

The total amount of the expense items relevant to the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509, is as follows:

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	$ Variance
Account 6110 – Network Support Expense	($7,247)	($7,013)	$234
Account 6120 – General Support Expense	$770,507	$772,030	$1,523

[17] See 47 C.F.R. § 32.2(a) and (b) (2020) in the criteria of the report.

Account 6210 – Central Office Switching Equipment Expense	$985,780	$990,760	$4,980
Account 6230 – Central Office Transmission Expense	$1,506,608	$1,514,055	$7,447
Account 6310 – Information Origination/Termination Expense	$0	$459	$459
Account 6410 – Cable and Wire Facilities Expense	$1,631,184	$1,585,761	($45,423)
Account 6510 – Other Property, Plant & Equipment Expense	($31,892)	($30,288)	$1,604
Account 6530 – Network Operations Expense	$429,302	$434,476	$5,174
Account 6610 – Marketing Expense	$289,567	$294,988	$5,421
Account 6620 – Customer Services Expense	$175,118	$181,577	$6,459
Account 6710 – Executive and Planning Expense	$859,188	$861,544	$2,356
Account 6720 – General and Administrative Expense	$1,036,326	$1,045,141	$8,815

Additionally, due to the exception above $951 was included in the High Cost program filings that were non-regulated expenses that should have been included in Account 7900: Non-Regulated Expenses.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper recording and reporting of expenses in appropriate accounts for purposes of USF disbursements as prescribed by the FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the condition above to or from the respective accounts or line items on the High Cost program 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 overpayment of $13,387 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$249
CAF BLS	$13,138
CAF ICC	N/A
Total	**$13,387**

RECOMMENDATION

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

KPMG also recommends that the Beneficiary enhance its process of preparation, review, and approval of expense transactions to ensure expenses are recorded in appropriate accounts for High Cost program purposes. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the misclassifications identified in the audit sample. Since the audit period, the Beneficiary has revised its chart-of-accounts guidance and provided additional training to ensure post-retirement benefit adjustments are allocated based on labor hours, FTTH inventory adjustments are recorded to Account 6230, and non-regulated amounts are recorded to appropriate non-regulated accounts. Review procedures have been implemented to verify proper classification prior to regulatory reporting.

HC2024LR011-F11: 47 C.F.R. §54.320(b) – Inaccurate Expenses

CONDITION

During expense testing, KPMG noted that the Trial Balance did not agree to the General Ledger for one account (Account 6710 – Executive and Planning Expense). The amount was overstated on the Trial Balance which was used as a source document for performing the cost study. KPMG confirmed from the regulatory filings that Account 6710 was overstated for High Cost program purposes[18] for the twelve-month period ended December 31, 2020, impacting the 2021-1 HCL Form and the Form 509 as follows:

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	$ Variance
Account 6710 – Executive and Planning Expense	$859,188	$788,410	($70,778)

CAUSE

The Beneficiary did not have adequate processes in place governing the use of accurate period end expense account balances for purposes of USF disbursements as prescribed by the FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the condition above to or from the respective accounts or line items on the High Cost program 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 overpayment of $41,013 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$18,461
CAF BLS	$22,552
CAF ICC	N/A
Total	**$41,013**

RECOMMENDATION

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

[18] See 47 C.F.R. § 54.320(b)(2020) in the criteria of the report.

KPMG also recommends that the Beneficiary enhance its process of validating accurate period end expense account balances reported for High Cost program purposes. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary acknowledges the overstatement identified during the audit period. Since the audit period, the Beneficiary has implemented year-end cut-off procedures, trial balance-to-general ledger reconciliations, and variance analysis reviews to ensure expense balances are complete and accurate prior to inclusion in regulatory filings.

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)	"(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. § 32.6112(b) (2020)	"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."
#2	47 C.F.R. § 32.6114(b) (2020)	"Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours."
#2	47 C.F.R. § 32.6512(b) (2020)	"Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge."

Finding	Criteria	Description
#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 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, #5, #7, #11	47 C.F.R. §54.320(b) (2020)	"All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."
#4	47 C.F.R. § 51.917(d)(1)(vii) (2020)	"If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to § 51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism."
#5	47 C.F.R. §54.1305(i) (2020)	(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.

Finding	Criteria	Description
#5	47 C.F.R. §32.12(b) (2020)	"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."
#6, #10	47 C.F.R. § 32.2(a) and (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."
#6	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."
#6	47 C.F.R. § 32.6121(a) (2020)	“(a) This account shall include expenses associated with land and buildings (excluding amortization of leasehold improvements). This account shall also include janitorial service, cleaning supplies, water, sewage, fuel and guard service, and electrical power.”

Finding	Criteria	Description
#6, #7, #9	47 C.F.R. § 64.901 (2020)	"(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. (b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. (2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. (4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed. (c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services."

Finding	Criteria	Description
#8	47 C.F.R. §54.7(a) and (c) (5) (2020)	"(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. […] (c) For those eligible telecommunications carriers as defined in § 54.5 receiving universal service support pursuant to subparts K and M of this part, ineligible expenses include but are not limited to the following: […] (5) Penalties or fines for statutory or regulatory violations; penalties or fees for any late payments on debt, loans, or other payments."

CONCLUSION

KPMG evaluated 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 relative to disbursements made from the High Cost program during the twelve-month period ended December 31, 2022. We identified 11 findings as presented in the Audit Results and Recovery Action section.

** This concludes the audit report.**

Attachment D

HC2025LR012

Lackawaxen Telecommunications Services, Inc.

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

USAC Audit No. HC2025LR012

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EXECUTIVE SUMMARY

March 31, 2026

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

Dear Ms. Delmar:

On behalf of the Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD), GKA, P.C. (GKA, we, our, and us) audited the compliance of Lackawaxen Telecommunications Services, Inc.'s (the Beneficiary), study area code (SAC) 170177 disbursements for the year ended December 31, 2024, using the regulations governing the federal Universal Service High Cost Support Mechanism (High Cost program) set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as, and orders and other program requirements (collectively, the Federal Communications Commission [FCC] Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit. We conducted the audit fieldwork from August 22, 2025, to March 31, 2026.

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

Based on the test work performed, our audit did not disclose any areas of non-compliance with the FCC Rules in effect during the audit period. GKA's determination is based on the circumstances in this audit and is neither binding nor limiting to any other past or future GKA, USAC, or FCC verification, audit, or investigation.

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.

GKA, P.C.

Washington, DC
March 31, 2026

cc: Michelle Garber, USAC Interim Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

GKA's limited scope performance audit procedures identified no findings.

PURPOSE, SCOPE AND PROCEDURES

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

SCOPE
In the following chart, we summarize the High Cost program support that was included in the scope of this audit:

High Cost Program Support	Data Period	Disbursement Period	Disbursements Audited
CAF BLS	Calendar Year 2022	Calendar Year 2024	$ 57,672
CAF ICC	Calendar Year 2022	Calendar Year 2024	115,992
Total			**$ 173,664**

BACKGROUND
The Beneficiary, a wholly owned subsidiary of Laurel Highland Total Communications, Inc., is a cost-based eligible telecommunications carrier (ETC) operating in Pennsylvania with 990 voice lines. It provides telecommunications services in the Lackawaxen area, including high-speed internet, fiber broadband, residential and business telephone service, cable television, managed information technology (IT) and business technology services, and web hosting

PROCEDURES
We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost program data filings consistent

with the dates established by the FCC Rules.

C. Line Count Records

We obtained and examined the Beneficiary's subscriber listings. We used computer- assisted auditing techniques to analyze the data files and to determine whether the number and type of lines in the data files agreed with the number and type of lines reported on the Beneficiary's High Cost program data filings.

D. Fixed Assets

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

E. 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.

F. 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.

CONCLUSION

GKA's limited scope performance audit procedures identified no findings.

This concludes the report.

Attachment E

HC2025LR018

Montrose Mutual Telephone Company

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

USAC Audit No. HC2025LR018

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EXECUTIVE SUMMARY

November 26, 2025

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

Dear Ms. Delmar:

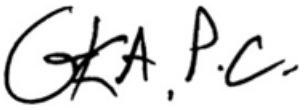
On behalf of the Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD), GKA, P.C. (GKA, we, our, and us) audited the compliance of Montrose Mutual Telephone Company's (the Beneficiary), study area code (SAC) 341058 disbursements for the year ended December 31, 2024, using the regulations set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, and orders governing the federal Universal Service High Cost Support Mechanism (High Cost program), as well as other program requirements (collectively, the FCC Rules). Compliance with the Federal Communications Commission (FCC) rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit. We conducted the audit fieldwork from March 25, 2025, to November 26, 2025.

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

Based on the test work performed, our audit disclosed one audit finding as discussed

in the Audit Result and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period. GKA's determination is based on the circumstances in this audit and is neither binding nor limiting to any other past or future GKA, USAC, or FCC verification, audit, or investigation.

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.



Washington, DC
November 26, 2025

cc: Michelle Garber, USAC Interim Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect			Recommended Recovery
	Connect America Fund Broadband Loop Support (CAF BLS)	High Cost Loop (HCL)	Total	
FINDING NO. 1: 47 C.F.R. § 32.3100 (c)— Inaccurate Accumulated Depreciation Balance The Beneficiary did not remove the net book value of retired Central Office Equipment–Transmission assets from accumulated depreciation, resulting in an overstatement of net plant and the rate base. As a result, the Beneficiary earned a return on assets no longer in service and received excess High-Cost program support.	$ 11,006	$ 2,302	$ 13,308	$ 13,308
Total	**$ 11,006**	**$ 2,302**	**$ 13,308**	**$ 13,308**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SAC 341058 and will seek recovery from the Beneficiary for the High Cost program support in the amount noted in the table below.

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

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

	CAF BLS (A)	**HCL(B)**	**USAC Recovery Action (A) + (B)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	$11,006	$2,302	$13,308	N/A
Mechanism Total	$11,006	$2,302	$13,308	N/A

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PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Program Support	Data Period	Disbursement Period	Disbursements Audited
CAF BLS	Calendar Year 2022	Calendar Year 2024	$ 3,637,404
CAF Intercarrier Compensation	Calendar Year 2022	Calendar Year 2024	$105,048
HCL	Calendar Year 2022	Calendar Year 2024	$143,852
		Total	**$ 3,886,304**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Illinois and offers voice and internet services. The Beneficiary is an affiliate of Wabash Communications.[1]

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

We recalculated the support that the Beneficiary received for each High Cost program

[1] Respond Communications, Inc. (Respond), along with Montrose Mutual Telephone Company (Montrose), entered into a merger agreement with Wabash Independent Networks, Inc. (Wabash) dated March 8, 2018. The Illinois Commerce Commission approved the reorganization and transfer of control on October 25, 2018, making Respond a wholly owned subsidiary of Wabash.

Wabash acquired 100% of the stock of Respond in 2018, making Respond a wholly owned subsidiary of Wabash. Therefore, Montrose is indirectly owned and controlled by Wabash.

component and determined that there were no more than nominal differences between the amounts received and those recorded in the High Cost program support system.[2]

B. High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost program data filings consistent with the dates established by the FCC Rules.

C. Line Count Records

We obtained and examined the Beneficiary's subscriber listings. We used computer-assisted auditing techniques to analyze the data files and to determine whether the number and type of lines in the data files agreed with the number and type of lines reported on the Beneficiary's High Cost program data filings.

D. Fixed Assets

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

[2] The 2011 base period amounts used to calculate federal high-cost support (FHCS) disbursements for the audit period were not tested during this audit and, consistent with standard audit procedures for prior period data, were presumed to be accurate. This approach is in accordance with USAC's audit methodology, which typically focuses on the accuracy of current period reporting and supporting documentation, rather than re-auditing previously accepted base period figures.

E. 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 the Beneficiary's monthly depreciation and accumulated plant 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.

F. 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.

DETAILED AUDIT FINDING

FINDING: 47 C.F.R. § 32.3100 (c) —Inaccurate Accumulated Depreciation Balance

CONDITION

The Beneficiary did not remove the accumulated depreciation of Central Office Equipment–Transmission, which reflected a positive (debit) balance of $333,939, representing the net book value of the retired assets, from its cost study for High Cost program filing purposes. This debit balance reduced the depreciation reserve and inflated net plant, thereby overstating the Beneficiary's rate base.

Because the net plant is a key input to High Cost program support calculations, the overstated rate base resulted in support amounts exceeding those permitted under High Cost program rules.

Account Number	Account Title	Reported Amount A	Balance Supported by Beneficiary Records B	Over-reported Amount C = A-B
3100.13	Accumulated Amortization—Digital Transmission	$ 333,939	($ 8,531)	($ 342,470)

CAUSE

The Beneficiary lacked procedures to ensure that any retirement-related debit position in accumulated depreciation is excluded from the rate base. As a result, existing controls did not operate effectively to detect and correct the resulting debit balance before the cost study was finalized.

EFFECT

We determined the monetary effect of this finding by subtracting the value of the overreported amounts from the total amounts in those accounts reported by the Beneficiary in the HCL and CAF BLS algorithm in its High Cost program filing. We summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$ 2,302
CAF BLS	11,006
Total	**$ 13,308**

RECOMMENDATION

We recommend that USAC Management seek recovery of the $13,308 in overpayments made to the Beneficiary, as identified in the Effect section above.

We also recommend that the Beneficiary strengthen internal controls to ensure that items not eligible for inclusion in the rate base—such as the net book value of retired assets—are properly identified and removed from accumulated depreciation and cost study inputs. The Beneficiary's formal procedures should require verification that retirement-related debit balances are eliminated from the rate base.

Further, we recommend that the Beneficiary improve the operation of controls by performing routine reviews of accumulated depreciation accounts, reconciling fixed-asset activity to rate base schedules, and ensuring that any non-includable items are removed promptly. Further, the Beneficiary's staff should receive training to reinforce regulatory requirements and prevent recurrence of similar errors.

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

Montrose Mutual Telephone Company, Inc. accepts the above finding from GKA, P.C. Montrose also intends to adjust this transaction to follow part 32 rules.

CRITERIA

47 C.F.R.§ 32.3100 (c):"At the time of retirement of depreciable operating telecommunications plant, accumulated depreciation should 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."

This concludes the report.

Attachment F

HC2026LR001

Surry Telephone Membership Corporation

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

USAC Audit No. HC2026LR001

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Universal Service Administrative Co.

EXECUTIVE SUMMARY

April 29, 2026

Amy Hanson, Chief Operating Officer
Surry Telephone Membership Corporation
819 E Atkins St
Dobson, NC 27017

Dear Ms. Hanson:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Surry Telephone Membership Corporation (the Beneficiary), study area code (SAC) 230503 disbursements for the year ended December 31, 2024, using the regulations set forth in 47 C.F.R. Parts 51, 54, and orders governing the federal Universal Service High Cost Support Mechanism (High Cost program), as well as other program requirements (collectively, the FCC Rules). Compliance with Federal Communications Commission (FCC) Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination did not disclose any areas of noncompliance with the FCC Rules in effect during the audit period. USAC's determination is based on the circumstances in this audit and is neither binding nor limiting to any other past or future USAC or FCC verification, audit, or investigation.

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

We appreciate the cooperation and assistance you and your staff provided during the audit.

Sincerely,

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

cc: Michelle Garber, USAC Interim Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Program Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	July 2024 – June 2025	2024	$2,936,214
Connect America Fund (CAF) Intercarrier Compensation (ICC)	July 2024 – June 2025	2024	$382,464
		Total	**$3,318,678**

BACKGROUND

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) operating in North Carolina. It provides telephone, internet, and security monitoring services for businesses and residential customers.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

AAD recalculated the support that the Beneficiary received for each High Cost program component and determined that there were no more than nominal differences between the amounts received and those recorded in the High Cost program system, which are attributable to expected rounding or minor timing differences inherent in program calculation processes.

B. High Cost Program Process

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

C. Line Count Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer-assisted auditing techniques to analyze the data files and determine whether the number and type of lines in the data files agreed with those reported in the Beneficiary's High Cost program data filings.

D. Revenues

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

This concludes the report.

Summary of the High Cost Support Mechanism Beneficiary Audit Reports Released: August 2026.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment G Palmetto Rural Telephone Cooperative	7	• **Inadequate Documentation and Inaccurate Reporting: Cost Study Adjustments.** The Beneficiary did not maintain supporting documentation for four cost study adjustments. Additionally, four cost study adjustments were inaccurate.	$12,029,928	($730,315)	$0	Partial
Attachment H Windstream Services, LLC	2	• **Locations Did Not Meet Public Interest Obligations**. The Beneficiary did not deploy broadband sufficiently, did not meet the minimum performance requirements, or deployed broadband to locations that failed to comply with the location eligibility requirements.	$1,230,090,793	$695,936	$695,936	Partial
Total	**9**		**$1,242,120,721**	**($34,379)**	**$695,936**	

Attachment G

HC2024LR028

SIKICH®

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PALMETTO RURAL TELEPHONE COOPERATIVE

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

USAC AUDIT NO. HC2024LR028

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CRITERIA **29**

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sikich.com

Executive Summary

March 6, 2026

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

Dear Ms. Delmar:

Sikich CPA LLC[1] (referred to as "we") was engaged to conduct a limited scope performance audit on the compliance of Palmetto Rural Telephone Cooperative (the Beneficiary), study area code (SAC) 240536 for disbursements made from the federal Universal Service High Cost Support Mechanism (High Cost program) during the year ended December 31, 2023. We conducted the audit field work from April 1, 2024, to March 6, 2026.

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 reviewing, 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 High Cost program, 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 High Cost program relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. Sikich's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

Based on the test work performed, our audit disclosed seven detailed audit findings (Findings) as discussed in the Audit Results and Recovery Action section. For the purpose of this report, 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.

Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period. Sikich's determination is based on the circumstances of this audit and is neither binding nor limiting to any other past or future Sikich, USAC, or FCC verification, audit, or investigation.

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 limited scope performance audit disclosed that the Beneficiary did not comply with the FCC Rules, as set forth in the seven detailed audit Findings discussed below.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 54.7(a) (2021), FCC 15-133 (2015), and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included 58 expense transactions in its High Cost program filing that were not related to the provision, maintenance, or upgrade of telecommunications facilities.	$25,314	$19,915	$0	$45,229	$45,229
Finding No. 2, 47 C.F.R. § 32.2(b) (2021) – Inaccurate Reporting: Expenses. The Beneficiary recorded 12 customer discount transactions as expenses instead of as reductions to its revenue.	$15,493	$0	$0	$15,493	$15,493
Finding No. 3, 47 C.F.R. § 51.917(d) (2021) – Inaccurate	$0	$0	$8,548	$8,548	$8,548

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

Reporting: Intrastate Terminating Switched Access Services Revenue. The Beneficiary did not include Direct Trunk Revenue as part of its Intrastate Revenue.					
Finding No. 4, 47 C.F.R. § 32.2(a)(b) (2021) – Misclassification of Expenses. The Beneficiary misclassified two expenses that should have been construction and four that should have been either COE switching, customer service, or general and administrative expenses.	($2,002)	($17,842)	$0	($19,844)	$0
Finding No. 5, 47 C.F.R. § 54.320(b) (2021), 47 C.F.R. § 64.901(b) (2021), and 47 C.F.R. § 32.27 (2021) – Inaccurate Reporting: Related Party Transactions. The Beneficiary's staff salaries plus benefits and related expense allocations of its Chief Technology Officer (CTO) in support of its Competitive Local Exchange Carrier (CLEC) included three inaccuracies.	($77,711)	($72,263)	$0	($149,974)	$0
Finding No. 6, 47 C.F.R. § 36.151 (2021), 47 C.F.R. § 64.901(b) (2021) and 47 C.F.R. § 36.154(a) (2021) – Inaccurate Reporting: Cable and Wire Facilities (CWF). The Beneficiary's CWF route allocation included errors in ethernet loop counts and allocation amounts reported for toll/special services and wideband, which impacted cost study investment	$25,211	($100,812)	$0	($75,601)	$0

adjustment 9 and expense adjustment 11.					
Finding No. 7, 47 C.F.R. § 64.901 (2021) and 47 C.F.R. § 54.320(b) (2021) – Inadequate Documentation and Inaccurate Reporting: Cost Study Adjustments. The Beneficiary did not maintain supporting documentation for four cost study adjustments. Additionally, four cost study adjustments were inaccurate.	($314,107)	($240,059)	$0	($554,166)	$0
Total Net Monetary Effect	**($327,802)**	**($411,061)**	**$8,548**	**($730,315)**	**$69,270**

USAC Management Response

USAC Management concurs with the audit results for SAC 240536, for the High Cost program support. The Beneficiary must implement policies and procedures necessary to comply with the FCC Rules. USAC Management recommends that the Beneficiary implement internal controls to ensure the correct application of its procedures to ensure compliance with the FCC Rules and Orders.

Finding	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	$25,314	$19,915	$0	$45,229	N/A
Finding No. 2	$15,493	$0	$0	$15,493	N/A
Finding No. 3	$0	$0	$8,548	$8,548	N/A
Finding No. 4	($2,002)	($17,842)	$0	($19,844)	N/A
Finding No. 5	($77,711)	($72,263)	$0	($149,974)	N/A
Finding No. 6	$25,211	($100,812)	$0	($75,601)	N/A
Finding No. 7	($314,107)	($240,059)	$0	($554,166)	N/A
Total	**($327,802)**	**($411,061)**	**$8,548**	**($730,315)**	N/A

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

Objectives, Scope, Background and Procedures

Objective

The purpose of our limited scope performance audit was to determine whether the Beneficiary complied with the FCC Rules for the 2023 disbursement period.

Scope

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
CAF BLS	2021	2023	$8,682,108
HCL	2021	2023	$2,601,420
CAF ICC	2020-2022	2023	$746,400
		Total	**$12,029,928**

Background

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) operating in South Carolina. The Beneficiary has four wholly owned subsidiaries: Palmetto Telephone Communications, LLC (PTC), Palmetto Rural Asset Management, LLC; Premiere Enterprises, LLC; and Palmetto Holdings, LLC. The services offered by the Beneficiary are local telephone, special access, internet service, and video services. The Beneficiary conducts an allocation in the form of a transfer within their general ledger for salaries plus benefits and related expenses of their CTO to PTC (the Beneficiary's CLEC).

Procedures

We performed the following procedures:

A. High Cost program Support Amount

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

B. High Cost program Process

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

C. Fixed Assets

We obtained and reviewed the Beneficiary's continuing property records (CPRs), work orders, invoices, and related documentation to determine whether the Beneficiary

reported accurate central office equipment (COE) balances, as well as CWF equipment balances. We also reviewed documentation and conducted a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts.

D. Operating Expenses

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

E. Revenues

We obtained and reviewed 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 reviewed 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 High Cost program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and reviewed 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. § 54.7(a) (2021), FCC 15-133 (2015), and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support

Condition

We obtained and reviewed the Beneficiary's general ledger and cost study balances and tested a non-statistical sample of 108 expense transactions (totaling $871,297) for the filing period ended on December 31, 2021, to determine whether the Beneficiary used High Cost program funding for its intended purpose of the provision, maintenance, and upgrading of facilities and services. Per the FCC Rules, "[a] carrier that receives federal universal service support shall use that

support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[3]

Upon review of the supporting documentation for the 108 expense transactions, we determined that 58 expense transactions, totaling $74,199, were not used for the provision, maintenance, or upgrading of facilities and services, for which High Cost program support is intended. In the table below, we summarize the effect on the account balances reported for High Cost program purposes:

Account	Nature of Expense(s)	Unallowable Sample				
		No. of Samples with Exceptions[4]	$ Value of Expenses with Exceptions[5] (A)	Non-Regulated % (B)	$ Previously Removed (C) [A*B]	$ Unallowable Remaining (A-C)
Network Support Expense (Account 6110)	Christmas expense	1	$110	21.41%	$23	$87
General Support Expense (Account 6120)	Christmas expense, retail, meals, late fee	13	$4,096	14.32%	$586	$3,510
CWF Expense (Account 6410)	Coffee expense	4	$2,165	0.00%	$0	$2,165
Network Operations Expense (Account 6530)	Gift card, and coffee	5	$168	0.00%	$0	$168
Network Operations Expense (Account 6530)	Caller Name (CNAM) expenses	1	$7,362	0.00%	$0	$7,362

[3] 47 C.F.R. § 54.7(a) (2021).
[4] In this report, Sikich identifies an "exception" when, based on a review of Beneficiary-provided evidence/documentation, it identifies a discrepancy or deviation from the norm resulting in audit testing. An exception results in a finding based on the materiality of the exception.
[5] *Id*. at footnote 4.

Unallowable Sample						
Account	Nature of Expense(s)	No. of Samples with Exceptions[4]	$ Value of Expenses with Exceptions[5] (A)	Non-Regulated % (B)	$ Previously Removed (C) [A*B]	$ Unallowable Remaining (A-C)
Marketing Expense (Account 6610)	Amazon renewal, advertisement, meals, fees	9	$7,710	58.92%	$4,542	$3,168
Customer Service (Account 6620)	Coffee expense and amazon renewal	2	$335	9.37%	$31	$304
General and Admin (Account 6720)	Christmas meals, late fees, flowers, food, investor dues, donations, and legal fees	23	$52,253	0.00%	$0	$52,253
	Total	**58**	**$74,199**	**N/A**	**$5,182**	**$69,017**

We summarized the impact of the inclusion of the unallowable costs on account balances reported for High Cost program purposes in the table below.

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	As Reported Part 64 Balances (A)	Balance Supported by Beneficiary Records (B)	Variance Overstatement/ (Understatement) (A-B)
Network Support Expense (Account 6110)	$212,552	$212,465	$87
General Support Expense (Account 6120)	$1,444,296	$1,440,786	$3,510
CWF Expense (Account 6410)	$1,863,504	$1,861,339	$2,165
Network Operations Expense (Account 6530)	$1,547,192	$1,539,662	$7,530
Marketing Expense (Account 6610)	$1,002,056	$998,888	$3,168

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	As Reported Part 64 Balances (A)	Balance Supported by Beneficiary Records (B)	Variance Overstatement/ (Understatement) (A-B)
Customer Service Expense (Account 6620)	$1,120,390	$1,120,086	$304
General and Administrative Expense (Account 6720)	$1,239,774	$1,187,521	$52,253

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to identify and exclude all unallowable expenses from the amounts reported for High Cost program purposes. Per the Beneficiary: "A relatively new Accounts Payable employee recorded this invoice and miscoded the charge. Although we have two levels of review in place, both reviewers missed the miscoding."[6]

Effect

We determined the monetary effect to the Beneficiary's High Cost program filing by adjusting the HCL and CAF BLS algorithm to subtract the overstated account balances as stated in the "Recalculation of Part 64 Balances" in the table above—for the period ended December 31, 2021. We summarized the impact of this Finding relative to disbursements made from the High Cost program for the 12-month period ended December 31, 2023, in the table below.

Support Type	Monetary Effect and Recommended Recovery
CAF BLS	$25,314
HCL	$19,915
CAF ICC	$0
Total	**$45,229**

Recommendation

We recommend that:

1. USAC Management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary develop and implement policies, procedures, and processes to ensure that costs not required for the provision, maintenance, and upgrading of facilities are excluded from amounts submitted for High Cost program purposes.

[6] Beneficiary response to the Summary of Exceptions received November 5, 2025.

The Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/appeals/.

Beneficiary Response
The Beneficiary agrees with this finding with the exception of the CNAM expense. We do not agree with the characterization of CNAM as an unallowable expense. CNAM functionality and access to CNAM data are essential for the provision of caller ID services, which are necessary for fulfilling the company's obligations to support the reduction and prevention of unwanted robocalls—an objective explicitly prioritized by both the FCC and Congress. Furthermore, the Beneficiary maintains that CNAM capability is mandated under FCC Order DA-11-1089A1. As such, we do not agree that FCC-mandated expenses should be excluded.

To ensure unallowable expenses are properly identified and excluded going forward, the Beneficiary will implement enhanced internal controls, including updated expense-coding procedures, additional reviewer training, and strengthened approval workflows. These measures will help ensure that all transactions are accurately evaluated against applicable FCC rules and appropriately classified prior to inclusion in the cost study and High Cost Program reporting.

Sikich Response
The Beneficiary's response is combining references to CNAM and Caller Line Identification (CLID). CNAM and CLID are two separate services. Per DA 11-1089 and 47 C.F.R. § 64.1601, carriers that use Signaling System 7 (SS7) must carry CLID. However, the regulations are silent on CNAM. The definitions in section 64.1600 indicate that a caller identification service could include the calling party number; however, the requirement to transmit the calling party number (CPN) does not mean that a caller identification service (which could also include other information, such as caller name) is also required. Therefore, although CLID is required, CNAM services are not, and the CNAM services are not allowable. Accordingly, our position on this finding remains unchanged.

Finding No. 2, 47 C.F.R. § 32.2(b) (2021) – Inaccurate Reporting: Expenses

Condition
We obtained and reviewed the Beneficiary's general ledger and cost study balances and tested a non-statistical sample of 108 expense transactions (totaling $871,297) for the filing period ended on December 31, 2021, to determine whether the Beneficiary accurately reported amounts for High Cost program purposes. Per the FCC Rules, "[w]ithin 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."[7] In addition, the FCC Rules state "The revised Uniform System of Accounts (USOA) is a historical financial accounting system which reports the results of operational and financial events in a manner which enables both management and regulators to assess these results within a specified accounting period. The USOA also provides the financial community and others with financial performance results. In order for an accounting system to fulfill these purposes, it must exhibit consistency and stability in financial reporting (including the results published for

[7] 47 C.F.R. § 32.2(b) (2021).

regulatory purposes). Accordingly, the USOA has been designed to reflect stable, recurring financial data based to the extent regulatory considerations permit upon the consistency of the well-established body of accounting theories and principles commonly referred to as generally accepted accounting principles (GAAP)."[8]

We reviewed the supporting invoices and determined that the Beneficiary improperly recorded customer discounts and deductions as expenses instead of recording the discounts and deductions to its applicable Part 32 revenue accounts for expense sample 13.[9] Specifically, the Beneficiary recorded 12 expense transactions in period 2021 (including expense sample 13) at a value of $45,594[10] in credits/discounts offered to customers as part of a marketing promotion in 2021 to its Part 32 account 6610, Marketing.

In the table below, we have summarized the impact of the expenses being miscategorized on the Marketing Expense account balance the Beneficiary reported for High Cost program purposes.

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	**As Reported Part 64 Balances (A)**	**Balance Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Marketing Expense (Account 6610)	$1,002,056	$956,462	$45,594

Cause

The Beneficiary erroneously recorded transactions for customer discounts as expenses. Specifically, per the Beneficiary: "When this marketing promotion was created, we aimed to track the associated costs and therefore mapped the credit to the expense account references. At the time, we treated this as a marketing expense."[11]

Effect

We determined the monetary effect to the Beneficiary's High Cost program filing by adjusting the CAF BLS algorithm to subtract the overstated account balance as stated in the "Recalculation of Part 64 Balances" in the table above—for the period ended December 31, 2021. We

[8] 47 C.F.R. § 32.1 (2021).

[9] Under General Accepted Accounting Principles (GAAP) Accounting Standards Codification (ASC) 606, discounts are considered a reduction in the transaction price. Specifically, ASC 606-10-32-27, states that "if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs: a. The entity recognizes revenue for the transfer of the related goods or services to the customer. b. The entity pays or promises to pay the consideration (even if the 38 payment is conditional on a future event). That promise might be implied by the entity's customary business practices."

[10] The sum of the 12 expense transactions recorded to Part 32 account 6610 in period 2021 equaled to $110,988, however because the Beneficiary applied a 58.92% non-regulated percent to account 6610, we remove the remaining balance of $45,594 ($110,988 - $65,394 = ($110,988 x 58.92%)).

[11] *Id*. at footnote 6.

summarized the impact of this Finding relative to disbursements made from the High Cost program for the 12-month period ended December 31, 2023, in the table below.

Support Type	Monetary Effect and Recommended Recovery
CAF BLS	$15,493
HCL	$0
CAF ICC	$0
Total	**$15,493**

Recommendation
We recommend that:

1. USAC Management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary develop and implement policies, procedures, and processes that describe how it will ensure it records customer discounts or deductions made on customer invoices to the proper Part 32 account.

The Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/appeals/.

Beneficiary Response
The Beneficiary agrees with this finding. When this marketing promotion was established, the Beneficiary intended to track the associated costs, which resulted in the credit being inadvertently recorded to an expense account. To prevent recurrence, the Beneficiary will implement enhanced review controls and updated accounting procedures to ensure that promotional credits, customer discounts, and similar transactions are consistently evaluated and recorded to the appropriate Part 32 revenue accounts going forward.

Finding No. 3, 47 C.F.R. § 51.917(d) (2021) – Inaccurate Reporting: Intrastate Terminating Switched Access Services Revenue

Condition
We obtained and reviewed the Beneficiary's billing reports, detailed general ledger, National Exchange Carrier Association (NECA) EC2060-L Report, and CAF ICC data to determine whether the Beneficiary reported accurate Intrastate Terminating Switched Access Services Revenue (Intrastate Revenue) for Program Years (PYs) 2020-2021 and 2021-2022 and verified the recording of Intrastate Revenues in the Beneficiary's general ledger as part of our Intrastate Revenue testing. Per the FCC Rules, "[b]eginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year."[12]

As a result of this testing, we found that the Beneficiary did not include Direct Trunk Revenue verified in general account 5083.16 as part of its CAF ICC Intrastate Revenue for the reporting

[12] 47 C.F.R. § 51.917(d)(1)(iv) (2021).

months of July 2020 to May 2021. We summarized the effect of not reporting Direct Trunk Revenue in PY 2020-2021 in the table below.

Recalculation of Intrastate Revenue			
Revenue	**Intrastate Revenue Reported**	**Intrastate Revenue Verified**	**Variance Overstatement/ (Understatement) (A-B)**
2020-2021	$50,849	$67,945	($17,096)

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to accurately report the Direct Trunk portion of the Intrastate Revenue for High Cost program purposes. Specifically, per the Beneficiary, "[i]t appears Palmetto was not reporting Direct Truck Revenue from July 2020 to May 2021 with the other illustrated revenue."[13]

Effect

We determined the monetary effect to the Beneficiary's High Cost program filing by adjusting the CAF ICC algorithm to add the understated Direct Trunk Revenue amount of $17,096 to the Intrastate Revenue reported for PY 2020-2021. We summarized the impact of this finding relative to disbursements made from the High Cost program for the 12-month period ended December 31, 2023, in the table below.

Support Type	Monetary Effect and Recommended Recovery
CAF BLS	$0
HCL	$0
CAF ICC	$8,548
Total	**$8,548**[14]

Recommendation

We recommend that:

1. USAC Management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement an adequate system to accurately report the Direct Trunk portion of the Intrastate Revenue for High Cost program purposes.

[13] Beneficiary's response to the Audit Inquiries Listing for the audit inquiry 57 on July 16, 2024.

[14] The monetary effect listed only represents disbursements during the 12-month period ending December 31, 2023. We also identified at least $8,548 in improper disbursements made in the immediate prior and subsequent periods that were outside of the scope of this engagement. For Intrastate Revenue, the program year spanned from July 2020 to June 2021, which would be trued up during the 2022 – 2023 program year. Because the audit period covers the 2023 disbursement period, this issue only affects the first half of the audit period. The monetary effect is therefore -$17,096 for the unreported revenue divided by 2 ($17,096/2). Accordingly, we determined the monetary impact for Intrastate Revenue is $8,548.

The Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/appeals/.

Beneficiary Response
The Beneficiary agrees with this finding. The Beneficiary acknowledges that Direct Trunk revenue was not reported for the period of July 2020 through May 2021. This omission was subsequently identified and corrected in the months following the review period. The Beneficiary has confirmed that the recording error has been fully resolved and will continue to strengthen oversight and internal review procedures of revenue reporting to ensure Direct Trunk revenue is accurately captured and reported for High Cost program purposes going forward.

Finding No. 4, 47 C.F.R. § 32.2(a)(b) (2021) – Misclassification of Expenses

Condition
We obtained and reviewed the Beneficiary's general ledger and cost study balances and tested a non-statistical sample of 108 expense transactions (totaling $871,297) for the filing period ended on December 31, 2021, to determine whether the Beneficiary recorded transactions to the proper Part 32 accounts for High Cost program purposes. Per the FCC Rules, "[t]he 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."[15] We reviewed the supporting invoices and determined that the Beneficiary did not classify six of the 108 expense transactions to the proper Part 32 accounts, as described in the table below.

[15] 47 C.F.R. § 32.2(a) (2021).

Misclassified Expenses							
Sample Ref #	Nature of Expense	Original Recorded General Ledger Account	Updated Recorded General Ledger Account	$ of Misclassified Expenses (A)	Non-Regulated % (B)	$ Previously Removed (C) [A*B]	$ Unallowable Remaining (A-C)
4	Optical transceiver module	Central Office Transmission Expense (Account 6230)	Construction (Account 2003)	$15,956	0%	$0	$15,956
6	Labor plus reimbursable expenses for CPE installation	Buried Cable Expense (Account 6410)	Construction (Account 2003)	$8,094	0%	$0	$8,094
14	Fees charged by banks for when customers pay by credit card	Customer Service Expense (Account 6620)	General and Administrative (Account 6720)	$73,692	0%	$0	$73,692
80	Switch with ports	Marketing Expense (Account 6610)	Central Office Switching Expense (Account 6210)	$3,760	0%	$0	$3,760
223	EISA Academy - Communications Supply Services Association	Buried Cable Expense (Account 6410)	Central Office Switching Expense (Account 6210)	$1,400	0%	$0	$1,400
230	Feedback Calls to Customers	Buried Cable Expense (Account 6410)	Customer Service Expense (Account 6620)	$2,700	9.37%	$253	$2,447

Because the Beneficiary did not record the six expense transactions to the proper Part 32 accounts, we concluded that the cost study balances reported for High Cost program purposes were inaccurate.

We summarized the effect of the misclassified expenses on account balances reported for High Cost program purposes in the table below.

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	**As Reported Part 64 Balances (A)**	**Balance Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Telecommunications Plant Under Construction (Account 2003)	$6,158,760	$6,182,810	($24,050)
Central Office Switching Expense (Account 6210)	$463,372	$468,532	($5,160)
Central Office Transmission Expense (Account 6230)	$1,472,978	$1,457,022	$15,956
CWF Expense (Account 6410)	$1,863,504	$1,851,310	$12,194
Marketing Expense (Account 6610)	$1,002,056	$998,296	$3,760
Customer Service Expense (Account 6620)	$1,120,390	$1,049,145	$71,245
General and Administrative Expense (Account 6720)	$1,239,774	$1,313,466	($73,692)

Cause

The Beneficiary's system for collecting, reporting, and monitoring data was not adequate to ensure it recorded expenses to the proper general ledger accounts for High Cost program purposes. Specifically, the Beneficiary noted that it misinterpreted the classifications for the six expense transactions based on the function they supported in providing telecommunications services, as follows:[16]

- Sample 4: The Beneficiary explained that "[a] relatively new Accounts Payable employee recorded this invoice and miscoded the charge. Although we have two levels of review in place, both reviewers missed the miscoding."
- Sample 6: The Beneficiary explained that "[i]n an effort to remain conservative, we did not record 100% of the contractor's time to an asset related to the fiber conversions."
- Sample 14: The Beneficiary explained that "[t]he bank fee resulted from serving a customer, so we charged the expense to account 6620."
- Sample 80: The Beneficiary explained that "[w]e provided free Wi-Fi in a community park. At the time, we viewed this as a customer and community service initiative; however, since we maintained ownership of the equipment, we understand your suggestion to capitalized it."
- Sample 223: The Beneficiary explained that "[t]he employee attending training typically worked on buried cable, so the expense was charged to account 6423. Since the employee was cross-training on voice services, we agree it should have been charged to account 6212."

[16] *Id*. at footnote 6.

- Sample 230: The Beneficiary explained that "[t]he customer survey focused on drop installations and was charged to account 6423."

Effect
We determined the monetary effect to the Beneficiary's High Cost program filing by adjusting the HCL and CAF BLS algorithms to subtract the overstated account balances and add the understated account balances—as stated in the "Recalculation of Part 64 Balances" in the table above—for the period ended December 31, 2021. We summarized the impact of this Finding relative to disbursements made from the High Cost program for the 12-month period ended December 31, 2023, in the table below.

Support Type	Monetary Effect
CAF BLS	($2,002)
HCL	($17,842)
CAF ICC	$0
Total	**($19,844)**[17]

Recommendation
We recommend that the Beneficiary implement policies and procedures to ensure it classifies expense transactions to the proper Part 32 accounts in compliance with the FCC Rules. Specifically, the Beneficiary should develop policies and procedures that require personnel to vet expense types against the Part 32 account definitions to ensure expenses are correctly coded 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/appeals/.

Beneficiary Response
The Beneficiary agrees with this finding. The Beneficiary acknowledges that several expenses were misclassified due to miscoding, conservative judgment, or misalignment between the nature of the expense and the appropriate Part 32 functional account. After reviewing the noted exceptions, the Beneficiary understands and accepts the recommended account corrections. To prevent recurrence, the Beneficiary will implement enhanced internal controls, including updated expense-coding procedures, refresher training for Accounts Payable and reviewing personnel, and strengthened supervisory review procedures. These measures will help ensure that expenses are consistently coded to the correct Part 32 accounts and accurately reflected in future cost studies and High Cost program reporting.

[17] The High Cost program does not pay additional support in the event of a Finding resulting in an underpayment. We are therefore not recommending recovery for this finding.

Finding No. 5, 47 C.F.R. § 54.320(b) (2021), 47 C.F.R. § 64.901(b) (2021), and 47 C.F.R. § 32.27 (2021) – Inaccurate Reporting: Related Party Transactions

Condition

We obtained and reviewed the Beneficiary's general ledger, related-party transaction listing, and cost study balances for the filing period ended on December 31, 2021, to determine whether the Beneficiary accurately calculated expenses transferred to its affiliates for High Cost program purposes—including a non-statistical sample of 28 related party transactions, totaling $223,827 for High Cost program purposes. Per the FCC Rules, "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".[18]

Monthly, the Beneficiary makes entries to book estimated allocation entries to allocate/transfer CTO and staff salaries, benefits and related expenses to PTC, one of its wholly owned subsidiaries. While testing these related party transactions, we identified the following instances of omissions and inaccurate allocations:

- **Accounts Not Allocated:** Accounts 6112, 6121, and 6123 from Department 65.01 identified balances of $10,966, $55,361, and $837, respectively, to be allocated, but no allocation from these accounts to PTC was made.

- **Account Over-Allocated:** Account 6124 from Department 65.01 was found to be over-allocated to PTC by the Beneficiary. Originally, the Beneficiary allocated $99,840 instead of $972.81. The $972.81 amount represents the recalculated balance using the allocation percentage of 25.99% based on service count types of PTC using the verified department balance of the account of $3,743.

- **Accounts 6611 and 6535 Under-Allocated and Accounts 6232 and 6423 Over-Allocated**:
    - Originally, the Beneficiary did not allocate from account 6611 due to the Beneficiary not anticipating charges to the account. However, a balance of $157,187 to allocate from account 6611 was identified. Using the allocation percentage of 25.99% based on service count types of PTC, we calculated the allocated balance for account 6611 in the table below.

Account 6611 Allocation			
Account	**Balance To Allocate**	**Percent Based on Service Count**	**Allocated Balance**
6611	$157,187	25.99%	$40,853

    - Using the verified allocation percentage of 25.99%, based on service count types of PTC, we determined that for account 6535, the Beneficiary under-allocated

[18] 47 C.F.R § 64.901(b)(3)(ii) (2021).

balances while for accounts 6232 and 6423, the Beneficiary over-allocated balances, as follows:

Account 6535, 6232, and 6423 Allocation					
Account	Balance To Allocate	Original Allocated Amounts (A)	Percent Based on Service Count	Allocated Amounts Based on Service Count (B)	Variance Overstatement/ (Understatement) (A-B)
6535	$201,296	$20,774	25.99%	$52,317	($31,543)
6232	$625,461	$190,980	25.99%	$162,557	$28,423
6423	$32,433	$126,000	25.99%	$8,429	$117,571

We summarized the impact of the inaccurate reporting on the account balances the Beneficiary reported for High Cost program purposes in the following table.

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account[19]	As Reported Part 64 Balances (A)	Balance Supported by Beneficiary Records (B)	Variance Overstatement/ (Understatement) (A-B)
Network Support Expense (Account 6110)	$212,552	$211,369	$1,183
General Support Expense (Account 6120)	$1,444,296	$1,530,649	($86,353)
Central Office Transmission Expense (Account 6230)	$1,472,978	$1,501,401	($28,423)
CWF Expense (Account 6410)	$1,863,504	$1,981,075	($117,571)
Network Operations Expense (Account 6530)	$1,547,192	$1,522,402	$24,790
Marketing Expense (Account 6610)	$1,002,056	$985,272	$16,784

Cause

The Beneficiary did not have an adequate system in place to collect, report and monitor data to ensure it accurately allocated CTO and staff salaries, benefits and related expenses to PTC from accounts 6124, 6535, 6232, and 6423 or to anticipate charges that needed to be allocated from accounts 6112, 6121, 6123, and 6611 for the filing period ended on December 31, 2021. Per the

[19] Per 47 C.F.R. § 32.6110 (a), 47 C.F.R. § 32.6120, 47 C.F.R. § 32.6610, 47 C.F.R. § 32.6530, 47 C.F.R. § 32.6230, and 47 C.F.R. § 32.6410, accounts 6112, 6121, 6123, 6124, 6611, 6535, 6232, and 6423 properly roll up to the Part 32 parent accounts of 6110, 6120, 6610, 6530, 6230 and 6410, respectively.

Beneficiary, "[a]t the time of the audit, the monthly expense transfer from PRTC to its subsidiary was based on budgeted information rather than actual expenses."[20]

Effect
We determined the monetary effect to the Beneficiary's High Cost program filing by adjusting the HCL and CAF BLS algorithm to subtract the overstated account balances and add the understated account balances—as stated in the "Recalculation of Part 64 Balances" in the table above—for the period ended December 31, 2021. We summarized the impact of this Finding relative to disbursements made from the High Cost program for the 12-month period ended December 31, 2023, in the table below.

Support Type	Monetary Effect and
CAF BLS	($77,711)
HCL	($72,263)
CAF ICC	$0
Total	**($149,974)**[21]

Recommendation
We recommend that the Beneficiary develop and implement policies, procedures, and processes to ensure that allocation percentages are current and accurate for allocated balances that the Beneficiary submits for High Cost program purposes. Updated policies should require a review process designed to ensure the Beneficiary uses actual data in performing its allocations to 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/appeals/.

Beneficiary Response
The Beneficiary agrees with this finding. During the audit period, the monthly expense allocation from the Beneficiary to its subsidiary was based on budgeted amounts rather than actual expenses. To prevent recurrence, the Beneficiary will update its policies and procedures to base all related-party expense transfers on actual incurred costs rather than budgeted estimates. The updated procedures will also establish a review process to verify the completeness and accuracy of allocation inputs each month, supported by underlying documentation and accurately reflected in the general ledger. These enhanced controls will help ensure that future filings reflect fully supported and properly calculated expense transfers.

[20] *Id*. at footnote 6.
[21] *Id*. at footnote 17.

Finding No. 6, 47 C.F.R. § 36.151 (2021), 47 C.F.R. § 64.901(b) (2021) and 47 C.F.R. § 36.154(a) (2021) – Inaccurate Reporting: CWF

Condition

We obtained and reviewed the Beneficiary's CWF route allocation for the filing period ended on December 31, 2021, to determine whether the route investment costs were assigned to the proper category and accurately reported for High Cost program purposes. Per the FCC Rules, "[i]n 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 identification of the facilities assignable to each category and the determination of the cost of the facilities so identified."[22] In addition, the FCC Rules require that, "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."[23]

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.

However, upon review of the Beneficiary's CWF route allocation to its network diagram, we identified the following errors:

- **Error in Wideband Allocation:** Prior year and current year (CY) loop count for ethernet did not agree with the supporting documentation provided. Specifically, the prior year and CY loop counts originally used for ethernet were 402 and 386, however, prior year and CY counts provided by the Beneficiary were 80 and 78, respectively.

- **Error in Joint DS3 System (DS1) Allocation**: The circuit counts used for toll/special services and wideband were 33 and 16, respectively. However, the supported counts for toll/special services and wideband were 35 and 18, respectively.

We summarized the impact of the errors found on the Beneficiary's CWF route allocation on the account balances the Beneficiary reported for High Cost program purposes in the following table.

[22] 47 C.F.R. § 36.151(c) (2021).
[23] 47 C.F.R. § 64.901(b)(3)(ii) (2021).

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	**As Reported Part 64 Balances (A)**	**Balance Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Telecommunications plant in service (Account 2001)	$92,451,319	$94,177,881	($1,726,562)
CWF (Account 2410)	$59,674,502	$61,401,064	($1,726,562)
Accumulated depreciation (Account 3100)	$44,404,505	$45,113,096	($708,591)
CWF Accumulated Depreciation (Account 3100-2410)	$24,488,927	$25,197,518	($708,591)
CWF Expense (Account 6410)	$1,863,504	$1,917,418	($53,914)
CWF Depreciation Expense (Account 6560-2410)	$2,252,059	$2,317,216	($65,157)
CWF (DL700)	$59,674,502	$61,401,064	($1,726,562)
Category 1 Investment for CWF (DL710)	$45,073,600	$46,382,309	($1,308,709)

As noted in the recalculation of Part 64 balances, because of the errors found on the Beneficiary's CWF route allocation, we updated investment 9 and expense adjustment 11. The purpose of investment 9 and expense adjustment 11 was to remove non-regulated equipment and fiber from the study per adjustment workbook (detailed route allocation). Because the Beneficiary used inaccurate data in its CWF route allocation, we concluded that the values the Beneficiary reported for CWF categorizations were not properly and accurately calculated, as demonstrated in the table below.

Impact to CWF Categorization for 2021[24]			
Category	**Part 36 Cost Study As Reported (A)**	**Balance Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Category 1 - 1.2 Inter PL & WATS	$20,455	$20,774	($319)
Category 1 – 1.3 Jointly Used	$41,725,979	$42,377,721	($651,742)

[24] Beneficiaries only report balances for CWF categorization for 2023 High Cost program disbursements as of December 31, 2021. Additionally, beneficiaries report the balances as an average balance. As a result, the balances reported for Category 1 in Table "Recalculation of Part 64 Balances" and Table "Impact to CWF Categorization for 2021" do not match.

Impact to CWF Categorization for 2021[24]			
Category	Part 36 Cost Study As Reported (A)	Balance Supported by Beneficiary Records (B)	Variance Overstatement/ (Understatement) (A-B)
Category 2 - Ex Trk x/WB	$77,957	$79,175	($1,218)
Category 2 - WB Trunk	$165,642	$168,229	($2,587)
Category 2 - WB Data Only Loop	$13,201,251	$13,407,449	($206,198)
Category 3 - Joint MSG x/WB	$77,741	$78,955	($1,214)
Category 3 - PL & Local x/WB	$216	$219	($3)
Total	**$55,269,241**	**$56,132,522**	**($863,281)**

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct CWF data inputs. Specifically, the Beneficiary did not have procedures in place to ensure accurate loop counts were used to perform the wideband and DS1 allocations within the cable and wire category allocation. "Upon further review, the Beneficiary acknowledged that the Ethernet loop counts included both regulated (ILEC) and non-regulated (CLEC) circuits. This led to an inaccurate Category 1 reallocation, overstating the non-regulated assessment. Additionally, the Beneficiary identified minor discrepancies between their cable and wire study and the supporting documentation, which were attributed to data entry errors."[25]

Effect

We determined the monetary effect to the Beneficiary's High Cost program filing by adjusting the HCL and CAF BLS algorithms to add the understated account balances—as stated in the "Recalculation of Part 64 Balances" and "Impact to CWF Categorization for 2021," tables above—for the period ended December 31, 2021. We summarize the impact of this finding relative to disbursements made from High Cost program for the 12-month period ended December 31, 2023, in the table below.

Support Type	Monetary Effect
CAF BLS	$25,211
HCL	($100,812)
CAF ICC	$0
Total	**($75,601)**[26]

[25] *Id*. at footnote 6.
[26] *Id*. at footnote 17.

Recommendation
We recommend that the Beneficiary implement a system that enables it to accurately report the CWF route allocation for the purposes of receiving High Cost program support. Specifically, the Beneficiary should implement a review process to ensure that loop and circuit counts are correct to ensure accurate CWF asset reporting for High Cost program purposes.

The Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/appeals/.

Beneficiary Response
The Beneficiary agrees with this finding. The Beneficiary, along with its consultants, conducts an annual cable and wire facilities (CWC) analysis as part of its cost study submission. Upon further review, the Beneficiary determined that the Ethernet circuits used in the analysis inadvertently included both ILEC and CLEC circuits. This resulted in an inaccurate Category 1 reallocation and an overstated non-regulated allocation within the CWF analysis. To prevent recurrence, the Beneficiary will implement enhanced controls over the process, including improved data-validation procedures, clearer separation of ILEC and CLEC circuit counts, and strengthened internal review steps. These measures will help ensure that all inputs used in future cost studies are complete, accurate, and properly supported, resulting in accurate CWF asset reporting for High Cost Program purposes.

Finding No. 7, 47 C.F.R. § 64.901 (2021) and 47 C.F.R. § 54.320(b) (2021) – Inadequate Documentation and Inaccurate Reporting: Cost Study Adjustments

Condition
We obtained and reviewed the Beneficiary's supporting documentation for 18 cost study adjustments for the filing period ended on December 31, 2021, to determine whether the Beneficiary accurately reported amounts for High Cost program purposes. Per the FCC Rules, 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."[27]

Upon reviewing the supporting documentation for cost study adjustments, we identified the following instances of inadequate documentation or errors:

- *Inadequate Documentation of Cost Study Adjustments:* We reviewed cost study adjustment details and determined the following cost study adjustments did not have adequate support:
    - **Investment 5 and Expense Adjustment 16**: The purpose of investment adjustment 5 was to reclassify switching equipment per the Responsible Accounting Officer (RAO) Letter 21[28] and the purpose of expense adjustment 16

[27] 47 C.F.R § 54.320(b) (2021).
[28] The RAO Letter 21 is a 1997 FCC order related to telecommunications carrier cost accounting. The Order provides guidance on how telecommunication carriers must account remote central office equipment.

was to reclassify the associated depreciation expense. A subsample of the assets reclassified under these adjustments were selected to verify the cost and the type of items being reclassified. From this selection, the Beneficiary could not provide support for three assets totaling $111,020.

- **Investment 8 and Expense Adjustment 10:** The purpose of investment adjustment 8 was to remove a leased portion of the switching investment and reserve and the purpose for expense adjustment 10 was to remove the maintenance expense associated with the switching lease, per the adjustment workbook. We requested the Beneficiary to provide support with the inputs calculating the leased portion of the switching investment. The Beneficiary could not provide documentation to support inputs of the frozen traffic factor, CLEC minutes of use, and switching depreciation expense balance, used in the calculation of the study adjustments.

- *Inaccurate Reporting of Cost Study Adjustments:* Upon our review of supporting documentation, we identified inaccuracies in the calculations of the following cost study adjustments:

  - **Investment 2 and 14 and Expense Adjustment 2:** The purpose of these adjustments was to remove nonregulated investments and the associated expenses using a joint use allocation method. The Beneficiary could not provide documentation to support the factors of 14.32%, 21.41%, and 0.21% applied to Part 32 account 2110, 1410 and related expense accounts respectively due to being carried forward from previous years. As such, we updated the cost study adjustments using a cost causative factor of 13.48% that could be supported by the Beneficiary.
  - **Expense Adjustment 8:** The purpose of the adjustment was for the removal of non-regulated expenses using joint use allocation. In addition, it was identified that the Beneficiary prepares a monthly non-regulated allocation on the general ledger to also remove the same non-regulated expenses that includes Part 32 account 6530, 6620, 6710 and 6720. As such, we determined that expense adjustment 8 was duplicative of the removal of nonregulated balances for the purpose of the High Cost program cost study and should not have been made.

Because the Beneficiary was unable to provide supporting documentation and we identified inaccuracies in cost study adjustments, we concluded that the cost study balances the Beneficiary reported for High Cost program purposes were not supported as accurate. We summarized the effect of the exceptions[29] on account balances reported for High Cost program purposes in the tables below.

[29] *Id*. at footnote 4.

Recalculation of Part 64 Balances for the 12-Month Period Ended December 31, 2021			
Account	**As Reported Part 64 Balances (A)**	**Balance Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Other noncurrent assets (Account 1410)	$1,294,721	$1,307,407	($12,686)
Telecommunications plant in service (Account 2001)	$92,451,319	$92,605,004	($153,685)
Land and Support Assets (Account 2110)	$17,066,941	$17,529,566	($462,625)
COE Switching (Account 2210)	$1,176,481	$978,561	$197,920
COE Transmission (Account 2230)	$14,533,394	$14,422,374	$111,020
Accumulated depreciation (Account 3100)	$44,404,505	$44,534,835	($130,330)
Land and Support Accumulated Depreciation (Account 3100-2110)	$9,562,676	$9,931,688	($369,012)
COE Switching Accumulated Depreciation (Account 3100-2210)	$900,931	$733,825	$167,106
COE Transmission Accumulated Depreciation (Account 3100-2230)	$9,451,972	$9,380,396	$71,576
Land and Support Depreciation Expense (Account 6560-2110)	$1,069,101	$1,010,015	$59,086
COE Switching Depreciation Expense (Account 6560-2210)	$214,276	$159,776	$54,500
COE Transmission Depreciation Expense (Account 6560-2230)	$1,234,241	$1,224,813	$9,428
Network Support Expense (Account 6110)	$212,552	$232,540	($19,988)
General Support Expense (Account 6120)	$1,444,296	$1,458,410	($14,114)
Network Operations Expense (Account 6530)	$1,547,192	$1,968,754	($421,562)
Customer Service Expense (Account 6620)	$1,120,390	$1,236,254	($115,864)
Corporate Operations Expense (Account 6710)	$525,215	$668,320	($143,105)
General and Administrative Expense (Account 6720)	$1,239,774	$1,457,586	($217,812)

Recalculation of Central Office Switching Categorization[30]			
Category	**As Reported Part 36 Balances (A)**	**Balance Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Category 3 – Local Switching	$1,177,294	$1,078,334	$98,960

Recalculation of Central Office Transmission Categorization[31]			
Category	**As Reported Part 36 Balances (A)**	**Balance Supported by Beneficiary Records (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Category 4.11 – Wideband-Line	$7,115,733	$7,088,547	$27,186
Category 4.12 – Ex Trk x/WB	$16,328	$16,266	$62
Category 4.13 – Joint MSG	$7,293,590	$7,265,726	$27,864
Category 4.13 – PL & Local	$3,576	$3,562	$14
Category 4.22 – Wideband PL	$31,917	$31,795	$122
Category 4.23 – All Other Joint MSG	$68,819	$68,556	$263
Category 4.23 – PL & Local	$185	$184	$1
Total	**$14,530,148**	**$14,474,636**	**$55,512**

Cause

The Beneficiary did not have adequate data retention procedures in place to ensure it properly retained records sufficient to demonstrate the reporting of its cost study adjustments. Specifically, it did not have adequate data retention procedures in place with regards to asset balances being reclassified, frozen traffic factor, CLEC minutes of use, and depreciation expense balance used in its switching allocation.

[30] Reported balances for Central Office Switching Categorization for 2023 HC program disbursements are only reported as of December 31, 2021.
[31] Reported balances for Central Office Transmission Categorization for 2023 HC program disbursements are only reported as of December 31, 2021.

Effect
We determined the monetary effect to the Beneficiary's High Cost program filing by adjusting the HCL and CAF BLS algorithm to subtract the overstated account balances and add the understated account balances—as stated in the "Recalculation of Part 64 Balances," "Central Office Switching Categorization" and "Recalculation of Central Office Transmission Categorization," tables above—for the period ended December 31, 2021. We summarize the impact of this finding relative to disbursements made from the High Cost program for the 12-month period ended December 31, 2023, in the table below.

Support Type	Monetary Effect
CAF BLS	($314,107)
HCL	($240,059)
CAF ICC	$0
Total	**($554,166)**[32]

Recommendation
We recommend that:

1. The Beneficiary retain supporting source documentation for the reclassification of assets and for the development of allocations such as switching allocation or joint use allocation.
2. The Beneficiary maintain documentation to demonstrate its compliance with the FCC Rules.

The Beneficiary may learn more about documentation and reporting requirements on USAC's website at: https://www.usac.org/about/appeals-audits/appeals/.

Beneficiary Response
The Beneficiary agrees with this finding. Working in collaboration with its consultant, the Beneficiary initially applied the appropriate adjustments to its CAF BLS and HCL filings. Upon further review, it was determined that applying a comprehensive Part 64 allocation within the cost study was unnecessary because a non-regulated allocation had already been applied in the general ledger. As a result, the additional adjustment caused more expense to be allocated to non-regulated activities than appropriate. To prevent recurrence, the Beneficiary will strengthen internal review and coordination processes across all responsible parties to ensure that non-regulated allocations are applied consistently and accurately at every level of reporting.

[32] *Id*. at footnote 17.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.7(a) (2021)	*(a) A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.*
1	FCC 15-133 – ALL UNIVERSAL SERVICE HIGH-COST SUPPORT RECIPIENTS ARE REMINDED THAT SUPPORT MUST BE USED FOR ITS INTENDED PURPOSE (2015)	*Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. The following is a nonexhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support:* • *Personal travel;* • *Entertainment;* • *Alcohol;* • *Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements;* • *Political contributions;* • *Charitable donations;* • *Scholarships;* • *Penalties or fines for statutory or regulatory violations;* • *Penalties or fees for any late payments on debt, loans or other payments;* • *Membership fees and dues in clubs and organizations;* • *Sponsorships of conferences or community events;* • *Gifts to employees; and* • *Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.*
1	FCC 18-29 III. REPORT AND ORDER A.10 (2018)	*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 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*

Finding	Criteria	Description
		findings here do not prevent rate-of return carriers from incurring any particular investment or expense, but simply clarify the extent to which investments and expenses may be recovered through federal high-cost support and interstate rates. The rules we adopt are prospective, but the underlying obligations are preexisting and many of the rules we adopt today codify existing precedent. Our rules and the used and useful standard have long governed ETCs and rate-of-return carriers' behavior. Nothing we do in this Report and Order is intended to undermine our precedent.
2	47 C.F.R. § 32.2(b) (2021)	*(b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.*
2	47 C.F.R. § 32.1 (2021)	*The revised Uniform System of Accounts (USOA) is a historical financial accounting system which reports the results of operational and financial events in a manner which enables both management and regulators to assess these results within a specified accounting period. The USOA also provides the financial community and others with financial performance results. In order for an accounting system to fulfill these purposes, it must exhibit consistency and stability in financial reporting (including the results published for regulatory purposes). Accordingly, the USOA has been designed to reflect stable, recurring financial data based to the extent regulatory considerations permit upon the consistency of the well-established body of accounting theories and principles commonly referred to as generally accepted accounting principles (GAAP). The rules of this part, and any other rules or orders that are derivative of or dependent on the rules in this part, do not*

Finding	Criteria	Description
		apply to price cap companies, and rate-of-return telephone companies offering business data services pursuant to § 61.50 of this chapter, that have opted-out of USOA requirements pursuant to the conditions specified by the Commission in § 32.11(g).
3	47 C.F.R. § 51.917(d) (2021)	*(d) Eligible Recovery for Rate-of-Return Carriers.* *(1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section.* *(i) Beginning July 1, 2012, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:* *(A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909;* *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and* *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012 using the target methodology required by § 51.705.* *(ii) Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:* *(A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909;* *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted*

Finding	Criteria	Description
		demand multiplied by the rates in the rate transition contained in § 51.909; and *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013 using the target methodology required by § 51.705.* *(iii) Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less:* *(A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012;* *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and* *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014 using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012.* *(D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.* *(iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year.*

Finding	Criteria	Description
		(v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year. *(vi) If a Rate-of-Return Carrier receives or makes reciprocal compensation payments after the period used to measure the adjustments to reflect the differences between estimated and actual net reciprocal compensation revenues, it shall treat such amounts as actual revenues or payments in the year the payment is received or made and shall reflect this as an additional adjustment for that year.* *(vii) If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to § 51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism.* *(viii)* *(A) If a Rate-of-Return Carrier in any tariff period underestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), and thus has too much Eligible Recovery in that tariff period, it shall refund the amount of any such True-up Revenues or True-up Revenues for Access Recovery Charge that are not offset by the Rate-of-Return Carrier's Eligible Recovery (calculated before including the true-up amounts in the Eligible Recovery calculation) in the true-up tariff period to the Administrator by August 1 following the date of the Rate-of-Return Carrier's annual access tariff filing.*

Finding	Criteria	Description
		(B) If a Rate-of-Return Carrier in any tariff period receives too little Eligible Recovery because it overestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), which True-up Revenues and True-up Revenues for Access Recovery Charge it cannot recover in the true-up tariff period because the Rate-of-Return Carrier has a negative Eligible Recovery in the true-up tariff period (before calculating the true-up amount in the Eligible Recovery calculation), the Rate-of-Return Carrier shall treat the unrecoverable true-up amount as its Eligible Recovery for the true-up tariff period.
4	47 C.F.R. §§ 32.2(a)(b) (2021)	*(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.*
5, 7	47 C.F.R. § 54.320(b) (2021)	*(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.
5	47 C.F.R. § 32.27 (2021)	*(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.*

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

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

Finding	Criteria	Description
		For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.
5, 6	47 C.F.R. § 64.901(b) (2021)	*(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.* *(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service.* *(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.* *(3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy:* *(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.* *(ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.* *(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.* *(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning*

Finding	Criteria	Description
		with the calendar year during which the investment usage forecast is filed.
5	47 C.F.R. § 32.6110 (a) (2021)	*(a) Companies shall use this account for expenses of the type and character detailed in Accounts 6112 through 6114.*
5	47 C.F.R. § 32.6120 (2021)	*Companies shall use this account for expenses of the type and character detailed in Accounts 6121 through 6124.*
5	47 C.F.R. § 32.6610 (2021)	*Companies shall use this account for expenses of the type and character detailed in Accounts 6611 through 6613.*
5	47 C.F.R. § 32.6530 (2021)	*Companies shall use this account for expenses of the type and character detailed in Accounts 6531 through 6535.*
5	47 C.F.R. § 32.6230 (2021)	*Companies shall use this account for expenses of the type and character detailed in Accounts 6231 and 6232.*
5	47 C.F.R. § 32.6410 (2021)	*Companies shall use this account for expenses of the type and character detailed in Accounts 6411 through 6441.*
6	47 C.F.R. § 36.151 (2021)	*(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 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.*
6	47 C.F.R. § 36.154(a) (2021)	*(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*

Finding	Criteria	Description
		average cost per working loop. This average cost per working loop is determined by dividing the total cost of exchange line cable and wire Category 1 in the study area by the sum of the working loops described in subcategories listed below. The subcategories are: *Subcategory 1.1—State Private Lines and State WATS Lines. This subcategory shall include all private lines and WATS lines carrying exclusively state traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes ten percent or less of the total traffic on the line.* *Subcategory 1.2—Interstate private lines and interstate WATS lines. This subcategory shall include all private lines and WATS lines that carry exclusively interstate traffic as well as private lines and WATS lines carrying both state and interstate traffic if the interstate traffic on the line involved constitutes more than ten percent of the total traffic on the line.* *Subcategory 1.3—Subscriber or common lines that are jointly used for local exchange service and exchange access for state and interstate interexchange services.*
7	47 C.F.R. § 64.901 (2021)	*(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*

Finding	Criteria	Description
		allocated between regulated and nonregulated activities in accordance with the following hierarchy: *(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.* *(ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.* *(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.* *(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.* *(c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.*
7	FCC 97-241 RAO Letter 21 (1997)	*On August 7, 1992, the Division issued RAO Letter 21. That letter clarified the proper classification of certain remote central office equipment, i.e., remote switches and remote concentrator terminals. The Division had determined that, apparently, some ILECs were classifying remote switching equipment as circuit equipment, and concluded that ILECs were having difficulty in distinguishing between certain types of remote central office equipment. For this reason, the Division released RAO Letter 21 to clarify the difference between remote switching equipment and circuit equipment. In the initial RAO Letter 21, the Division stated that the primary factor distinguishing a remote concentrator terminal from a remote switch was that a remote switch has stand-alone switching capability while a concentrator does not have that capability. The stand-alone*

Finding	Criteria	Description
		switching capability enables a remote switch to connect local calls, either routinely or when the lines connecting the remote to the "host" switch are not functioning.

This concludes the report.

Available for Public Use

Attachment H

HC2019MO029

Windstream Services, LLC

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

USAC Audit No. HC2019MO029

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EXECUTIVE SUMMARY

March 24, 2025

Timothy Loken
Director - Regulatory Compliance
Windstream Services, LLC
4001 N. Rodney Parham Rd.
Little Rock, AR 72212

Dear Timothy Loken:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Windstream Services, LLC (the Beneficiary), for the study area codes (SACs) and disbursements described in the Purpose, Scope and Procedures section, for the periods January 1, 2015 through December 31, 2021 for Connect America Fund (CAF) Phase II Model support, using the regulations governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. §§ 54.309-.310, as well as orders, public notices and other program requirements (collectively, the Federal Communications Commission (FCC) Rules). Further, pursuant to 47 C.F.R. § 54.320, assessing the Beneficiary's compliance and recordkeeping of its required deployment obligations occurred after the Beneficiary's CAF Phase II Model support term and final milestone. Compliance with FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for 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 identified in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of noncompliance with the defined deployment obligations required by FCC Rules. USAC's determination is based on the circumstances in this audit and is neither binding nor limiting to any other past or future USAC or FCC verification, audit, or investigation including any examinations of the Beneficiary's data submissions in any past, current, or future Broadband Data Collection (BDC) filings. Further, findings and other information resulting from verifications, audits, or investigations of BDC filings may be used by the FCC and/or USAC in further assessing the Beneficiary's compliance with the broadband obligations of the High Cost program.

USAC may have omitted certain information from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations. This report

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

We appreciate the cooperation and assistance you and your staff provided during the audit.

Sincerely,

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

cc: Michelle Garber, USAC Interim 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	CAF Phase II Model Monetary Effect and Recommended Recovery
Finding #1: 47 C.F.R. § 54.309(a)(1) (2019) - Locations Did Not Meet Public Interest Obligations. The Beneficiary did not deploy broadband sufficiently, did not meet the minimum performance requirements, or deployed broadband to locations that failed to comply with the location eligibility requirements for 65 of the 1,149 units sampled, of which two units resulted in the monetary effect and recommended recovery.	$695,936
Finding #2: FCC DA 16-1363 (2016) – Inaccurate Location Information Reported in the High Cost Universal Broadband (HUBB) Portal. The Beneficiary reported incorrect addresses and/or geocodes for 218 units of the 1,149 units sampled in the HUBB portal.	$0
Total	**$695,936**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SACs 250302, 401691, 210336, 223037, 351178, 269690, 361414, 421885, 280453, 230476, 371568, 150109, 300665, 431965, 170176, 240517, and 442147, and will seek recovery from the Beneficiary regarding SAC 421885 for the CAF Phase II Model support in the amount noted in the table below. The Beneficiary must implement policies and procedures necessary to comply with the FCC Rules. USAC Management recommends that the Beneficiary implement internal controls to ensure the correct application of its procedures to ensure compliance with FCC Rules and Orders.

	Total Recommended Recovery	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$695,936	$695,936	N/A
Finding #2	$0	$0	N/A
Total	**$695,936**	**$695,936**	N/A

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Beneficiary complied with FCC Rules, assess the accuracy of the Beneficiary's HUBB portal submission of its deployment obligations, and conduct a site visit after the final milestone to validate performance obligations for CAF Phase II Model support.

SCOPE

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

State	SAC	CAF Phase II Model Support[1]	No. of Locations[2] Reported and Certified in the HUBB as of 3/1/2022[3]	No. of Units[4] Reported and Certified in the HUBB as of 3/1/2022	No. of Units Tested
Alabama	250302	$4,291,328	3,234	3,234	61
Arkansas	401691	$92,146,487	32,667	33,062	92
Florida	210336	$36,656,355	30,182	30,182	62
Georgia	223037	$174,074,630	80,510	80,510	65
Iowa	351178	$200,707,917	46,438	46,848	89
Kentucky	269690	$151,038,890	84,723	84,723	62
Minnesota	361414	$12,490,493	5,610	5,610	61
Missouri	421885	$99,315,383	27,928	28,354	89
Mississippi	280453	$6,421,802	2,836	2,949	65
North Carolina	230476	$15,349,347	9,051	9,051	61
Nebraska	371568	$95,140,078	22,692	22,823	64
New York	150109	$10,893,777	5,170	5,248	63
Ohio	300665	$29,079,877	15,122	15,122	63
Oklahoma	431965	$55,746,891	17,843	18,281	66
Pennsylvania	170176	$91,009,548	38,963	38,963	62
South Carolina	240517	$7,195,071	4,858	4,858	62
Texas	442147	$148,532,919	49,967	49,968	62
Total		**$1,230,090,793**	**477,794**	**479,786**	**1,149**

[1] These amounts represent the total CAF Phase II Model support disbursed by the High Cost program for seven years. CAF Phase II Model support was initially authorized to be disbursed January 1, 2015 through December 31, 2020, but the FCC extended the support term for an additional year, through the end of 2021. *Wireline Competition Bureau Authorizes All Eligible Price Cap Carriers to Receive a Seventh Year of Connect America Fund Phase II Model-Based Support,* WC Docket No. 10-90, Public Notice, DA 20-1352 (WCB 2020). The High Cost program disbursed the CAF Phase II Model support, using administrative SACs chosen by the carrier to ease administrative burden for certification and location reporting along with allowing for centralized disbursement of authorized funds.

[2] A location is one pair of geographic coordinates (geocodes).

[3] The FCC extended the support term through the end of 2021 and provided the carriers with an opportunity to submit updates to the locations reported and certified in the HUBB portal submission by March 1, 2022.

[4] 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. See also, *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations,* DA 16-1363, Residential Locations and Business Locations, pages 4-5 (Wireline Comp. Bur. December 8, 2016).

BACKGROUND

The Beneficiary is an eligible telecommunications carrier (ETC) operating in the states identified in the Scope section above.

PROCEDURES

AAD performed the following procedures:

A. Deployment Milestone Requirements

AAD compared the number of locations (units) the Beneficiary reported and certified in the HUBB portal at the final milestone to determine whether the Beneficiary satisfied the requirements and was not disbursed funds in excess of the FCC's support authorization letter.[5]

B. Broadband Deployed using CAF Phase I vs. CAF Phase II Support

AAD compared the locations the Beneficiary reported and certified in the HUBB portal for CAF Phase II Model to the locations the Beneficiary reported and certified in the HUBB portal for CAF Phase I Round 2 to determine whether the Beneficiary included locations it served using CAF Phase I Round 2 support as part of its CAF Phase II Model support build-out obligations.[6]

C. Sample Selection, Documentation Review, Site Visit, Extrapolation – 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 of locations not tested.

AAD also contracted the services of a professional engineering company, Elite Systems, LLC, to examine evidence of the Beneficiary's broadband deployments, including the equipment used to provide broadband, testing the upload and download speeds and latency, validating addresses and geographic coordinates (geocodes), and testing other FCC requirements.

D. Location Eligibility, Address and Coordinates

AAD examined the locations the Beneficiary reported and certified in the HUBB portal to determine the accuracy of the geocodes for each sampled location. AAD used mapping software and other data analytic techniques to determine whether the geocodes existed within the Beneficiary's eligible census block. In addition, AAD assessed whether the locations met the FCC deployment criteria, and that service could be provided within 10 business days upon request.[7] AAD also assessed whether the Beneficiary accurately reported and certified eligible locations in the HUBB portal by examining the count of housing units and

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[5] *Wireline Competition Bureau Authorizes Windstream to Receive over $174 Million in Connect America Phase II Support in 17 States,* , WC Docket No. 10-90, Public Notice, 30 FCC Rcd 3905 (Wireline Comp. Bur. 2015). See also *Wireline Competition Bureau Authorizes All Eligible Price Cap Carriers to Receive a Seventh Year of Connect America Fund Phase II Model-Based Support,* WC Docket No. 10-90, Public Notice, DA 20-1352 (Wireline Comp. Bur. 2020).

[6] *Connect America Fund ETC Annual Reports and Certifications, Rural Broadband Experiments,* FCC 16-28, Order (Wireline Comp. Bur. March 9, 2016).

[7] *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations,* DA 16-1363, note 11 (Wireline Comp. Bur. December 8, 2016).

the appearance of eligible structures.[8]

E. Minimum Deployment Requirements

AAD examined advertising materials, subscriber bills, and/or the Beneficiary's service availability tool regarding the locations the Beneficiary reported and certified in the HUBB portal to determine whether the Beneficiary offered requisite services to meet the minimum deployment obligations.

F. Site Visits

AAD performed a physical inspection of each sampled location, including corroborating the geocodes reported in the HUBB portal were the same as the geocodes of the physical location where broadband was deployed, confirming that broadband service was operational or could become operational within 10 business days, and conducting the engineering tests to determine whether the results met the public interest obligations for offering broadband service (the minimum downstream/ upstream) with latency suitable for real-time applications (including VOIP), and usage capacity that is reasonably comparable to offerings in urban areas and assessing rates that are reasonably comparable to offerings in urban areas.[9]

G. Performance Measures Module Comparison

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

H. Take Rate Analysis

AAD examined the USAC Data Strategy Team's analysis comparing the locations where broadband was deployed to the number of subscribers located in the same census block area. AAD inquired with the Beneficiary to understand why certain census blocks with broadband deployment have very few subscribers. AAD determined whether the explanations were deemed reasonable.

[8] *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations,* DA 16-1363, page 6 – Do's and Don'ts (Wireline Comp. Bur. December 8, 2016).
[9] See 47 C.F.R. § 54.310(c), 47 C.F.R. § 54.320(d)(2), and 47 C.F.R. § 54.309(a)(1).

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 54.309(a)(1) (2019) – Locations Did Not Meet Public Interest Obligations

CONDITION

AAD contracted with an independent statistician to select a statistically valid sample of 1,149 units[10] (1,075 locations) that the Beneficiary reported and certified in the HUBB portal for CAF Phase II Model support at the final milestone and, using an independent engineering firm, performed physical inspections to determine whether a) the locations met the requirements for CAF Phase II Model support, b) the related geocodes were reported and certified accurately in the HUBB portal, and c) the locations met the public interest obligations for offering broadband service (at least 10 Mbps downstream/1 Mbps upstream) with latency suitable for real-time applications (less than 100 milliseconds). During the site visit,[11] Elite Systems, LLC, the independent engineering firm identified that the Beneficiary did not deploy broadband to four units, did not meet the minimum performance requirements for one unit, and claimed to have deployed broadband to 60 units that Elite Systems and AAD determined did not have any associated eligible structure.[12] See the engineering firm's report in Appendix 1 and a summary of the exceptions in the table 1 below.[13]

Table 1:

[10] 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. *See also*, *Guidance on Location Reporting,* DA 16-1363, pages 4-5 – Residential Locations and Business Locations.

[11] Per GAGAS, para. 8.104 b, evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.

[12] Pursuant to DA 16-1363, carriers must not report empty parcels of land, vacant structures that are condemned or are to be demolished, boats, recreational vehicles (RVs), tents, caves, and similar types of shelter that no one is using as a residence in the HUBB portal.

[13] A statistically valid sample was selected from each study area (SAC) subject to this audit. To see the total population of locations and units the Beneficiary reported in the HUBB for each SAC, refer to the Scope section.

State	SAC	Statistically Valid Sample Size (in units)	Failure Description	No. of Ineligible Units
Alabama	250302	61	No eligible structure	3
Arkansas	401691	92	No eligible structure	25
Florida	210336	62	No eligible structure	3
Georgia	223037	65	No eligible structure	4
			Inadequate upload and/or download speed (copper)	1
Iowa	351178	89	No eligible structure	14
Kentucky	269690	62	No eligible structure	1
Missouri	421885	89	No eligible structure	2
Mississippi	280453	65	No eligible structure	3
North Carolina	230476	61	No eligible structure	2
Ohio	300665	63	No eligible structure	2
South Carolina	240517	62	No eligible structure	1
Texas	442147	62	No broadband service (copper)	4
Grand Total				**65**

In summary, there were 65 units across 12 SACs that did not meet one or more of the FCC's requirements. The Beneficiary acknowledged the results above and provided documentation for 54 units (18 locations) out of the 65 units (29 locations) listed in the table above.

- For 54 units of the 60 units that did not have an eligible structure, the Beneficiary provided documentation that showed the following: a) pictures of fences/gates, power meter, pedestal, church, or evidence that a structure is not visible at the location, etc., or b) satellite images of a pin to houses more than 36 feet away or pin to an empty land (not to a structure), or c) picture of the location that did not support the number of units reported. AAD reviewed the documentation and determined that the documentation was not sufficient, appropriate evidence to demonstrate compliance with the FCC Rules. The structures depicted in the pictures and satellite images were not on the premises during the site visit. Pursuant to DA 16-1363, carriers must not report empty parcels of land, community anchor institutions, vacant structures that are condemned or are to be demolished, boats, recreational vehicles (RVs), tents, caves, and similar types of shelter that no one is using as a residence in the HUBB. Because the units did not have an eligible structure as required by FCC Rules and the Beneficiary did not provide documentation evidencing there was an eligible structure at the location at the end of the support term, AAD concludes that the Beneficiary reported units in the HUBB that did not meet the qualifying location reporting in its certification to satisfy the public interest obligation for CAF Phase II Model support and failed to update the location in the HUBB to ensure the

information was complete and accurate.[14] The Beneficiary did not provide any documentation for the remaining six of the 60 units.

- For the one unit in Georgia where there was inadequate service (upload/download speed) failure description, the Beneficiary acknowledged the results but did not provide a reason for the failure (e.g., cause statement) or disagreement.
- For the four units in Texas where there was no broadband service failure descriptions, the Beneficiary responded that the service to one of the four locations was a plain old telephone service (i.e., this type of line cannot process broadband) and the other three locations do not belong to the Beneficiary. Although all four locations were entered into the HUBB and certified by the Beneficiary, none of the units met the qualifying criteria for reporting purposes.

CAUSE

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

EFFECT

The monetary effect of this finding is $695,936 related to the Missouri SAC 421885 obligation. AAD compared the number of failures in the statistically valid sample to the sample size to calculate a failure rate by SAC, which was then extrapolated to the number of reported units by SAC that were not tested to determine the failure rate by SAC. AAD then multiplied the failure rate by the total number of units the Beneficiary reported in the HUBB portal via SAC and compared it to the number of funded locations (obligation requirement) to determine whether there was a shortfall in meeting the required deployment obligation for each SAC.[15] See details in the Table 2 below.[16]

Table 2:

[14] *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 – Duty to File Complete, Accurate and Timely Data (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…We expect that carriers will act diligently to timely correct any errors or omissions in all of their HUBB filings, including their initial filings. For example, we expect that carriers will work diligently so that soon after the March 1, 2017 filing deadline, Phase II recipients of model-based support and rate-of return carriers will have submitted any missing data, including any qualifying locations inadvertently not reported, and corrected any data errors or anomalies found by USAC or by the carrier in their March 1, 2017 filing.) (2016).

[15] *See* 47 C.F.R. § 54.320(d)(2),(3).

[16] Rounded to the nearest unit.

State	SAC	Total No. of Failed Units	Failure Rate[17] (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)
Alabama	250302	3	5.11%	3,234	1,889	165	1,180
Arkansas	401691[18]	25	1.82%	33,062	32,312	602	148
Florida	210336	3	5.03%	30,182	17,891	1,518	10,773
Georgia	223037	5	8.44%	80,510	64,721	6,795	8,994
Iowa	351178	14	3.23%	46,848	44,930	1,513	405
Kentucky	269690	1	1.67%	84,723	62,070	1,415	21,238
Missouri	421885[19]	2	3.34%	28,354	27,509	947	(102)
Mississippi	280453	3	4.91%	2,949	2,760	145	44
North Carolina	230476	2	3.37%	9,051	6,988	305	1,758
Ohio	300665	2	3.33%	15,122	13,073	504	1,545
South Carolina	240517	1	1.68%	4,858	3,144	82	1,632
Texas	442147	4	4.38%	49,968	44,580	2,189	3,199

While the Beneficiary was required to deploy broadband to the requisite number of units in Alabama, Arkansas, Florida, Georgia, Iowa, Kentucky, Mississippi, North Carolina, Ohio, South Carolina, and Texas, the Beneficiary reported and certified deployment to more than the required number of units. Therefore, even with the extrapolated (expected) units with errors as noted in column **(D)** above, the remaining population certified in the HUBB exceeded the number of locations required for deployment as noted in column **(E)**. Thus, while the Beneficiary reported and certified units in the HUBB that did not meet the performance obligations per the errors noted in column **(D)** above, AAD concluded that the Beneficiary met the final milestone for Alabama, Arkansas, Florida, Georgia, Iowa, Kentucky, Mississippi, North Carolina, Ohio, South Carolina, and Texas.

[17] 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.

[18] The extrapolation percentage roughly tracks the overall failure rate. It varies slightly from the failure rate based on our sampling plan, which accounted for high-risk factors, including locations where USAC and the FCC have received complaints, anomalies (such as duplicate addresses), multiple-dwelling units, and past high-cost findings. For SAC 401691, the extrapolation percentage is lower because there are fewer failures in these higher-risk locations. For SAC 401691, the failure rate in stratum 4 is 1.72% of 98.70% of the population; in stratum 5, is 0% of 3.11% of the population; and in stratum 6, is 80% of 0.19% of the population. No errors were identified for stratum 1-3 since the population is 0.

[19] The extrapolation percentage roughly tracks the overall failure rate. It varies slightly from the failure rate based on our sampling plan, which accounted for high-risk factors, including locations where USAC and the FCC have received complaints, anomalies (such as duplicate addresses), multiple-dwelling units, and past high-cost findings. For SAC 421885, the extrapolation percentage is lower than the failure rate because there are fewer failures in these higher-risk locations. For SAC 421885, the failure rate in stratum 1 is 0% of 0.19% of the population; in stratum 2, is 0% of 0.05% of the population, in stratum 3, is 0% of 0% of the population, in stratum 4, is 3.51% of 95.05% of the population, stratum 5 is 0% of 4.64% of the population, and in stratum 6, it is 0% of 0.02%.

Because the Missouri SAC resulted in a shortfall, we calculated the monetary effect in accordance with FCC Rules.[20] See the Table 3 below.

Table 3:

State	SAC	Monetary Effect for Shortfall[21]				10% Return of Funding[22] (E)	Total Monetary Effect (D)+(E)
		Shortfall (A)	Average amount of support per location (B)	1.89 per FCC Rules (C)	Total (D) = (A)*(B)*(C)		
Missouri	421885	102	$3,610	1.89	$695,936	$0	$695,936

RECOMMENDATION

Pursuant 47 CFR 54.320(d)(3), if subsequent to the eligible telecommunications carrier's support term, USAC determines in the course of a compliance review that the eligible telecommunications carrier does not have sufficient evidence to demonstrate that it is offering service to all of the locations required by the final milestone, USAC shall recover a percentage of support from the eligible telecommunications carrier. Thus, AAD recommends that USAC Management seek recovery of $695,936 as identified in the Effect section above. AAD also recommends that USAC Management make the necessary adjustments in the HUBB portal for the units that failed (i.e., units with known errors).

BENEFICIARY RESPONSE

Windstream recommends that 1 unit from Missouri and 14 units from Iowa be removed from the total number of failed units. See information below supporting this recommendation. In addition, Windstream recommends that the failure rate calculation be modified for the Missouri SAC as stated below.

Missouri SAC 421885

Non Qualifying Location

The USAC review of valid CAF2 locations denied the location at 1600 HIGHWAY 42 IBERIA MO 65486 stating that is not a valid location.

---

[20] *See* 47 C.F.R. 54.320(d)(2) and (3).

[21] Per *See* 47 C.F.R. 54.320(d)(2), AAD calculated $3,610 as the average amount of support per location received (disbursed) in the support area for the relevant number of locations, multiplied by 1.89 per FCC Rules, multiplied by the number of units in shortfall of the obligation (102).

[22] Per 47 C.F.R. 54.320(d)(2), a 10 percent reduction of the Beneficiary's total relevant high-cost support received (disbursed) over the support term for that support area per state/SAC level should be calculated. However, under the High Cost program rules, beneficiaries had the opportunity to return funding if they fell below 95 percent of their obligation; the Beneficiary met this criteria; thus, the 10% penalty is no longer applicable. *See In the Matter of Connect America Fund et al.*, WC Docket Nos 10-90, 14-58, 14-192, FCC 14-190, para. 39 (2014). Because the Beneficiary elected 95 percent flexibility before December 31, 2015 and reached greater than 95 percent of locations (even after extrapolation), it is not subject to a further 10 percent recovery.

Support A below shows that this location did have a trailer located on the premises. In addition, the tax assessment support shows that there was a structure here as the tax assessment showed an addition in 2020.

I would recommend that this location that was initially denied be removed from the listing of invalid CAF2 locations.

**Note: The Beneficiary provided Support A which is a screenshot of a gate/fence and driveway for 1600 Highway 42, Iberia, MO 65486, while noting that the manufactured home was present and removed. The Beneficiary also provided a screenshot of the property's tax history showing an addition of $770 in 2020.*



Calculation of Failure Rate

The audit report is not using a simple error rate for a given SAC (# units failed/# units tested). Instead, the failure rate calculation is based on a breakout of 6 Strata as shown in the table below. Normally, when breaking groups down into strata, samples are then determined for each of the sub groups at a similar percentage of the sample.

When looking at the Strata breakout and the percent of the sub group tested, the percentage of the population tested by strata seemed very inconsistent. Strata 4 & 5 tested 0.2% and 0.6% of the population respectively where Strata 2 and 4 tested 100% of the population skewing the overall error rate percentage. With such a disparity between the testing of the Sub groups, I would question the validity of the overall error rate and would recommend using a simple average for the entire SAC. So, for SAC 421885 MO I would recommend using 2 failed units/89 total units tested or 2.25% (this error rate percent would decrease if the location above becomes classified as a valid location). If this recommendation is denied, Windstream requests the breakout of the audit locations by Strata to validate this calculation.
**Note: the Beneficiary included a table provided by AAD showing the breakdown of the Strata groupings used to calculate the reported error rate.*

Iowa SAC 351178

The USAC review of valid CAF2 locations denied the multi-unit locations at 3338 BLACK HAWK AVE NW OXFORD IA 52322 stating that recreational vehicles and tents are not valid locations.

In addition to the RV's that are at this location, we also provided support and stated that "There is more than a campground at this location. Permanent manufactured homes and business are present at 3338 Black Hawk Ave, NW".

Support B below identifies and counts 14 permanent structures at this location. In addition, Support C, a screenshot from the United States Postal Service (USPS), shows that USPS has Trailers as valid postal delivery locations at this address. In addition, we provided a snapshot of 16 mailboxes at this location. I would recommend that the 14 multi-dwelling units that were initially denied be removed from the listing of invalid CAF2 locations.

**Note: The Beneficiary provided support B, which is a snapshot from Google Maps of 14 structures considered to be permanent, manufactured homes at 3338 Black Hawk Avenue, NW. Support C is a screenshot from the United States Postal Service's website showing delivery locations for 14 addresses in 3338 Black Hawk Ave, NW TRLR, as well as a screenshot from Google Map's street view showing the 14 physical mailboxes.*

AAD RESPONSE

In its response, the Beneficiary disagrees with one of two failed units in Missouri and the related failure rate calculation, and all 14 failed units in Iowa, disputing a total of 15 of the 65 units identified as failures in the Condition section above. The Beneficiary also provided additional documentation to support their assertion. AAD considered the Beneficiary's response and reviewed the support documentation, and made the following conclusions:

Missouri SAC 421885

- Regarding the location at 1600 HIGHWAY 42, IBERIA, MO, 65486,the Beneficiary added this location in the HUBB portal for year-end 2019 and certified it in February 2020. The Beneficiary provided support A shows a picture of a wire fence and gate to a dirt path, but the picture did not show a trailer or any other type of structure or evidence of a unit. The Beneficiary also provided a tax history record indicating that an increase of $770 in property tax was recorded in 2020 only for an addition, however, that additional $700 was subsequently removed for years 2021 – 2023 from the property tax history record. The tax history record does not provide evidence of a structure for the reporting as of year-end 2019. In addition, the tax history record did not include information about property, price history, structure value or improvements even whether there was a home or other type of structure there. Further, there was no evidence (e.g., picture or satellite image) to support the claim that there was a qualifying structure in place during the support term (2015-2020) or cure period (2020-2021). While the Beneficiary claims that a trailer existed at this location, there was no evidence to show that the location had a structure at the end of the support term or cure period (2020-2021).[23] Further, if a structure once existed but was removed, the Beneficiary is required to update the HUBB portal

[23] FCC DA 16-1363 (2016).

accordingly to remove an ineligible unit. Therefore, AAD's position regarding this unit (location) remains unchanged.

- The Beneficiary raised concerns about how the failure or error rate for this SAC was calculated, specifically, around how the groups (strata) were divided. AAD used an independent statistician who set up the groups (strata) based on characteristics of the locations and following a methodology approved by the FCC. The statistician then calculated the overall failure rate using the sample, size, number of issues found and the total number of locations reported in the HUBB portal. Therefore, AAD does not agree with the Beneficiary's statements due to the following key points:
    - The groups were tested fairly. As a standard statistical practice, a minimum number of three samples was needed from each group to meet a precision criteria with a 90% confidence level and 5% estimated margin of error. In two of the groups, that meant testing every location, making the margin of error for these groups essentially zero.
    - Each group's results only apply to that group, and the grouping cannot be ignored after the fact as noted in the sub-bullet above.
    - Grouping (stratification) is important because it separates locations with higher risk of errors. This reduces the overall margin of error by isolating riskier locations instead of letting them skew results across the board.
    - The extrapolation percentage roughly tracks the overall failure rate. It varies slightly from the failure rate based on our FCC-approved sampling plan, which accounted for high-risk factors, including locations where USAC and the FCC have received complaints, anomalies (such as duplicate addresses), multiple-dwelling units, and past High Cost program findings. For SAC 421885, the extrapolation percentage is lower because there are fewer failures in these higher-risk locations and the failure rate of 3.34% is calculated proportionally as follows: the failure rate in stratum 1 is 0% of 0.19% of the population; in stratum 2, is 0% of 0.05% of the population, in stratum 3, is 0% of 0% of the population, in stratum 4, is 3.51% of 95.05% of the population, stratum 5 is 0% of 4.64% of the population, and in stratum 6, it is 0% of 0.02%.

  This approach allowed AAD to calculate the failure rate with the lowest possible margin of error and properly estimate how many locations fell short of requirements. While the Beneficiary refutes the extrapolation methodology, the Beneficiary did not provide any documentation to substantiate the remaining locations. Therefore, AAD's position regarding the failure rate calculation remains unchanged.

Iowa SAC 351178

- Regarding the multi-unit locations at 3338 BLACK HAWK AVE NW, OXFORD, IA 52322, the Beneficiary indicated in support B that the 14 units reported in the HUBB system are permanent buildings based on satellite image and related United States Postal Office mailboxes. However, AAD, in conjunction with the engineering firm's observations during the site visit, identified this location as a campground. Also, AAD reviewed the FCC National Broadband Map and noted that this location is identified as an RV park. Therefore, the location was properly classified as a campground in the context of this audit,

resulting in it being deemed invalid. As a result, AAD's position regarding this location remains unchanged.

AAD clarifies that the failures were identified during the site visits, where the locations were tested three times if they were deemed not to meet the FCC requirements. These tests were witnessed by a Beneficiary representative who was present on site. Subsequently, AAD provided an Excel spreadsheet with the results of the testing to the Beneficiary to acknowledge and provide any documentation for AAD's examination. As stated in the Condition, based on documentation provided by the Beneficiary, none of the 65 failures were adjusted because the documentation provided was insufficient to remove the exceptions. These 65 units are the basis for the extrapolation to determine which SACs had a shortfall (Table 1) and the 102 units for the Missouri SAC that resulted in the shortfall is the bases for the calculation of the monetary effect as calculated in the Effect section above. These 65 failed units were communicated to the Beneficiary along with the draft audit report, for which the Beneficiary had an additional opportunity to provide its response and any further documentation to dispute the determination of failed units. In response to this finding, the Beneficiary did not provide any additional documentation to dispute the 50 failed units; rather, it provided documentation for one unit from Missouri SAC 421885 and the related failure rate calculation, and for 14 units from Iowa SAC 351178 as discussed in the AAD Response section above. Based on our review of the information before us, AAD's calculation of the shortfall and recommended recovery remains unchanged.

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

CONDITION

AAD selected a statistically valid sample of 1,149 units (1,075 locations) that the Beneficiary reported and certified in the HUBB portal for CAF Phase II Model at the final milestone and, using an independent engineering firm, performed physical inspections to determine whether the address locations and related geocodes were accurately reported and certified in the HUBB portal.[24] The Beneficiary reported inaccurate address locations and/or inaccurate geocoordinates (greater than 36 feet) for 218 units in its HUBB data submission for CAF Phase II Model support.[25] See the table below.

[24] 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.

[25] *Guidance on Location Reporting,* DA 16-1363, pages 11-12. *See also*, FCC Form 481 Officer Certification.

State	SAC	Inaccurate Addresses	Inaccurate Geocoordinates	Both	Total No. of Failures by Unit
Alabama	250302	8	11	1	**20**
Arkansas	401691	8	0	0	**8**
Florida	210336	5	6	1	**12**
Georgia	223037	5	9	2	**16**
Iowa	351178	1	0	1	**2**
Kentucky	269690	2	2	0	**4**
Minnesota	361414	1	2	0	**3**
Missouri	421885	9	9	4	**22**
Mississippi	280453	7	12	2	**21**
North Carolina	230476	9	6	2	**17**
Nebraska	371568	6	8	2	**16**
New York	150109	9	11	1	**21**
Ohio	300665	5	8	1	**14**
Oklahoma	431965	4	4	1	**9**
Pennsylvania	170176	3	3	1	**7**
South Carolina	240517	3	6	1	**10**
Texas	442147	3	10	3	**16**
	Total	**88**	**107**	**23**	**218**

CAUSE

The Beneficiary acknowledged that the addresses and geocoordinates were reported inaccurately and attempted to revise them during the audit, but the revisions could not be completed because the HUBB was locked in March 2022.

EFFECT

There is no monetary effect for this finding as the Beneficiary was able to reconcile the differences and AAD validated the correct geocoordinates.

RECOMMENDATION

AAD recommends that USAC Management make the necessary adjustments to the HUBB portal for the 218 units.

BENEFICIARY RESPONSE

Windstream agrees with this finding. The CAF2 program began in 2015 when the utilization of the Latitude and Longitude for telecommunications was in its infancy. There has been a lot of progress made this 2015 and there continue to be enhancements made.

CRITERIA

Finding	Criteria	Description
#1	47 CFR 54.309(a)(1) (2019)	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) Recipients of Connect America Phase II model-based support are required to offer broadband service at actual speeds of at least 10 Mbps downstream/1 Mbps upstream.
#1	47 CFR 54.310(c)(1) (2019)	For purposes of meeting the obligation to deploy to the requisite number of supported locations in a state, recipients of Connect America Phase II model-based support may serve unserved locations in census blocks with costs above the extremely high-cost threshold instead of locations in eligible census blocks, provided that they meet the public interest obligations set forth in § 54.309(a) introductory text and (a)(1) for those locations and provided that the total number of locations covered is greater than or equal to the number of supported locations in the state.
#1	47 CFR 54.320(d)(2) and (3) (2019)	USAC will recover the total of the percentage of support that is equal to 1.89 times the average amount of support per location received by that carrier over the support term for the relevant number of locations to which the carrier failed to build out; the percentage of support that is equal to 1.89 times the average amount of support per location received in the support area for the relevant number of locations for that carrier multiplied by the percentage of time since the carrier was last able to demonstrate compliance based on performance testing; and 10 percent of the eligible telecommunications carrier's total relevant high-cost support over the support term for that support area. If subsequent to the eligible telecommunications carrier's support term, USAC determines in the course of a compliance review that the eligible telecommunications carrier does not have sufficient evidence to demonstrate that it is offering service to all of the locations

Finding	Criteria	Description
		required by the final milestone or, in the case of Alaska Plan participants, did not provide service consistent with the carrier's approved performance plan, USAC shall recover a percentage of support from the eligible telecommunications carrier as specified in paragraph (d)(2) of this section.
#1	47 CFR 54.310(c)(2) (2019)	Recipients of Connect America Phase II support may elect to deploy to 95 percent of the number of supported locations in a given state with a corresponding reduction in support computed based on the average support per location in the state times 1.89.
#1	*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 6 – Do's and Don'ts and page 12 (2016)	DO NOT report: … Empty parcels of land … The locations of businesses expected to purchase dedicated high capacity transmission, such as business data services, Structures that are open to the elements—that is, the roof, walls, windows, and/or doors no longer protect the interior from the elements, Vacant structures that are condemned or are to be demolished (often indicated by a sign on the structure)…Boats, recreational vehicles (RVs), tents, caves, and similar types of shelter that no one is using as a residence. 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.
#1	GAGAS, para. 8.104b (2018 Revision).	Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.
#2	*Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations,* DA 16-1363, pages 11-12 (Wireline Comp. Bur. December 8, 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. 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

Finding	Criteria	Description
		of my knowledge, the information reported on this form and in any attachments is accurate.”

ATTACHMENT I: SPECIALIST REPORT - ELITE SYSTEMS

ELITE SYSTEMS

ENGINEERING STUDY REPORT

CAF II PROGRAM

Windstream Services LLC

SAC 150109, 170176, 210336, 223037, 230476, 240517, 250302, 269690, 280453, 300665, 351178, 361414, 371568, 401691, 421885, 431965, 442147

Audit ID HC2019MO029

Report Release: January 2nd, 2024
Final Report: August 10th, 2026

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Confidential/For Internal USAC Use Only

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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-Dwelling Units (Apartment Building)

I. EXECUTIVE SUMMARY

Elite Systems was awarded a contract to conduct an independent audit of Windstream Services LLC, verifying compliance with the broadband service deployment obligations by Connect America Fund Phase II (CAF II) carriers. This audit was conducted within 17 Service Area Codes (SACs), encompassing 1075 locations (1149 units), and the audit period extended from December 7th, 2022, to March 31st, 2024. The engagement was executed under contract AAD20_108, as part of the High-Cost Broadband Network and Engineering Audit Services program.

SAC		Locations	Units
150109	New York	*61*	*63*
170176	Pennsylvania	*62*	*62*
210336	Florida	*62*	*62*
223037	Georgia	*65*	*65*
230476	North Carolina	*61*	*61*
240517	South Carolina	*62*	*62*
250302	Alabama	*61*	*61*
269690	Kentucky	*62*	*62*
280453	Mississippi	*65*	*65*
300665	Ohio	*63*	*63*
351178	Iowa	*64*	*89*
361414	Minnesota	*61*	*61*
371568	Nebraska	*63*	*64*
401691	Arkansas	*64*	*92*
421885	Missouri	*71*	*89*
431965	Oklahoma	*66*	*66*
442147	Texas	*62*	*62*
Total		***1,075***	***1,149***

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:

Network Capable of:
- Download speed: 10 Mbps
- Upload speed: 1 Mbps
- Latency: 100ms or less

Service Offering:
- Download speed: 10 Mbps
- Upload speed: 1 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

Before 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 1,075 locations (1,149 units) as part of this audit and discovered five locations not meeting the minimum KPIs. Furthermore, Elite identified 24 locations (60 units) that were non-compliant with DA 16-1363 because they were empty parcels or invalid structures. A unit is used to refer to an apartment in a multi-dwelling facility, where there could be multiple potential customers at one site. Another 192 locations (218 units) had address or geolocation errors. Of the 1,075 selected locations, 379 are current subscribers to broadband services by Windstream Services LLC.

See Table 2.

Findings	# of Locations	# of Units
KPI Non-compliance	**5**	**5**
Speed or Latency	*1*	*1*
No Connection	*4*	*4*
Non-Qualifying Locations	**24**	**60**
Empty Parcel	*22*	*45*
Invalid Structure	*2*	*15*
Address / Geolocation Errors	**192**	**218**
GPS	*104*	*107*
Physical Address	*85*	*88*
GPS and Address	*23*	*23*

Table 2: Summary of Exceptions

[1] Location may contain multiple types of failures. Elite did not exclude overlapping failures from these counts.

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.

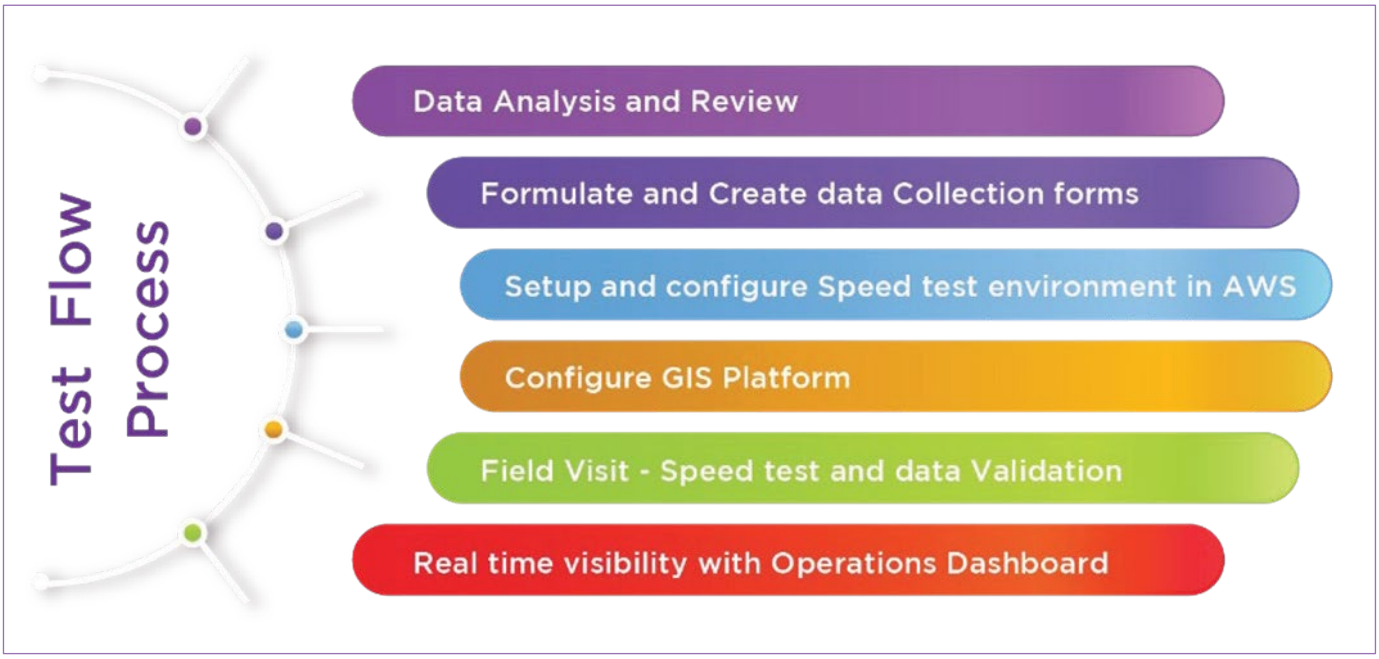


Figure 1: Engineering Testing Process

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 Windstream Services 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 Paul Bunyan. 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 Windstream Services technician provided the correct address using the Windstream Services 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 Regulations[2], 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).

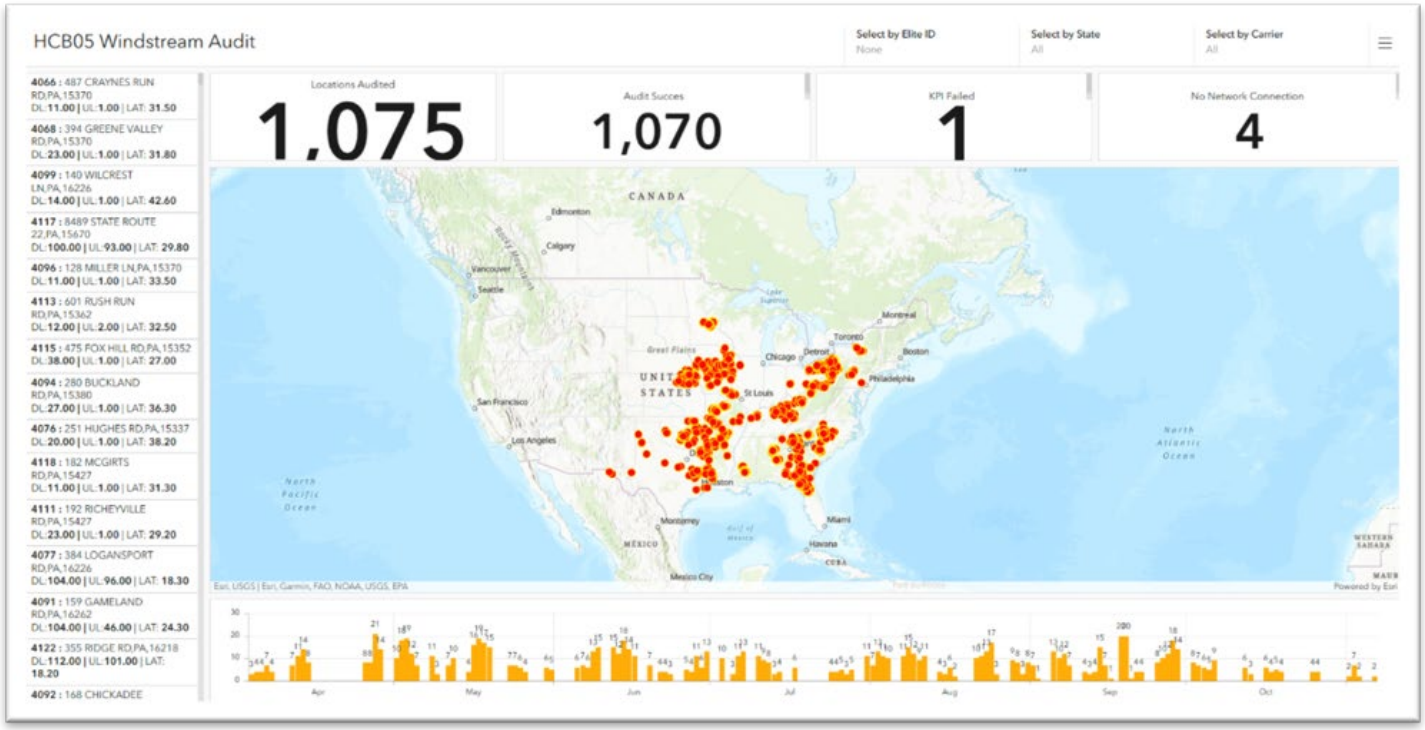
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[2] *In the Matter of Connect America Fund, Order, FCC DA 19-1165, para. 40 (2019) (The Bureau has determined that sets of geocoordinates a distance of 36 feet or more from another will describe separate structures.)*

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, and 6, which facilitated data verification, monitoring, and further analysis.



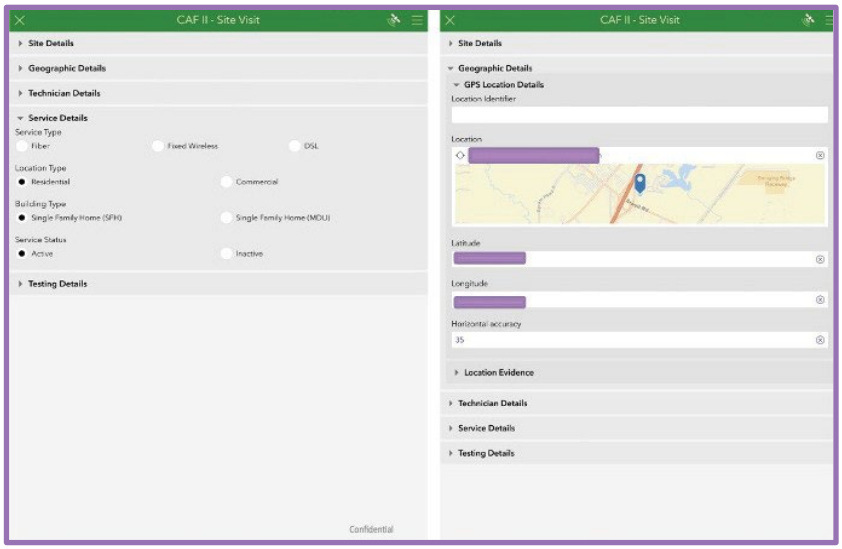


Figure 5: Field Survey Data Collection 1

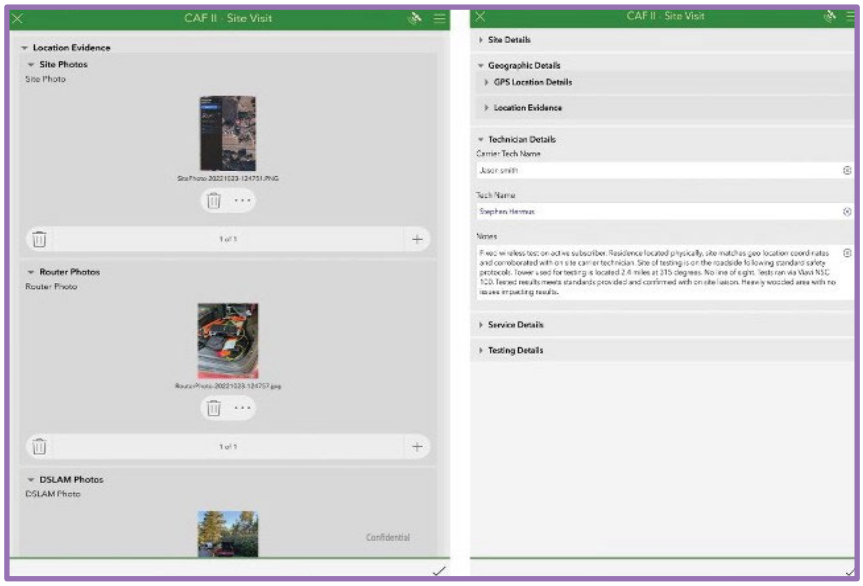


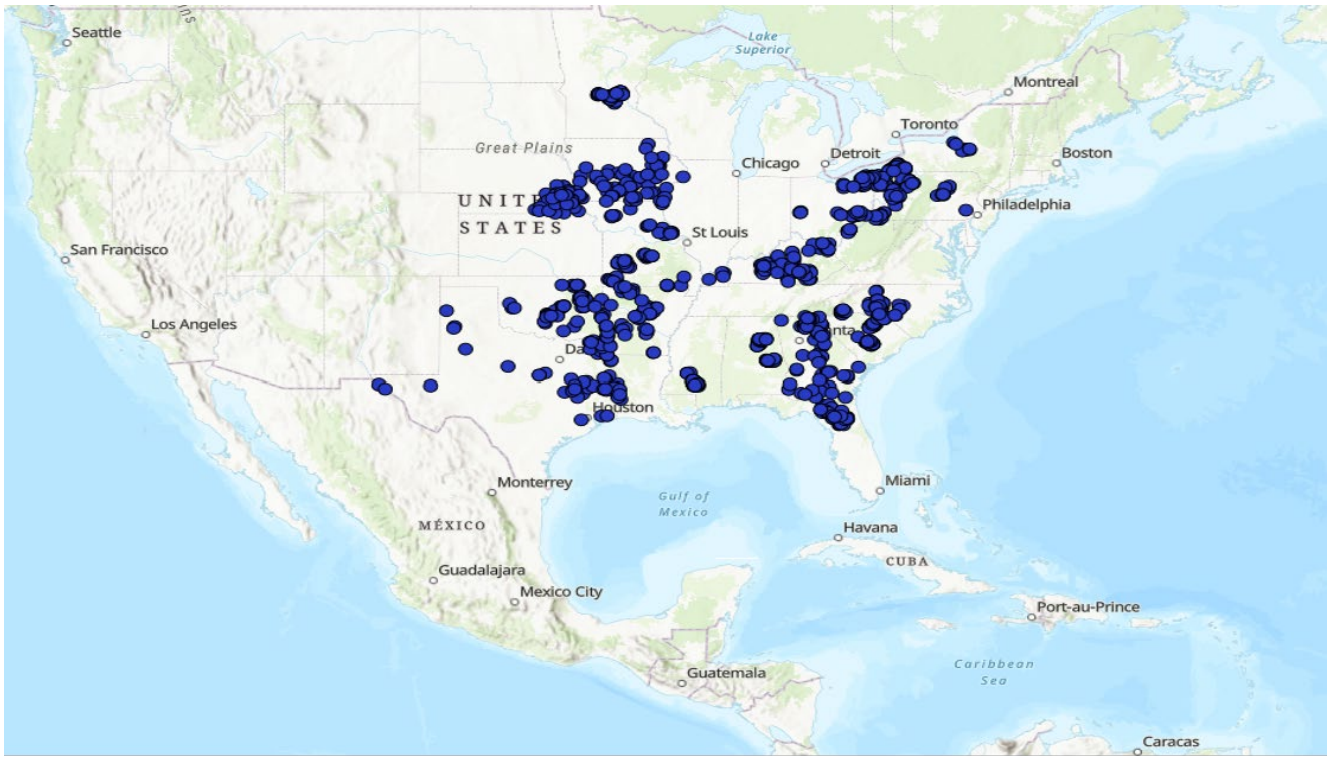
Figure 6: Field Survey Data Collection 2

III. CONCLUSION:

1. DOCUMENTATION REVIEW FINDINGS

The engineering and business documentation Windstream provided met the minimum program-obligated requirements to enable the engineering audit. The documentation included all the information needed to determine the eligibility of the sample locations for the CAF-II program and to prepare the necessary steps to perform the location visits accurately. The information collected included: postal address, geolocations, type of technology delivering the service, whether the location has an existing customer, and copies of any bills confirming the address, monthly rate, and data usage allowance. Per Elite Systems' review of the documentation, Windstream Services did not report any exception for addresses or geolocations for any of the sample locations.

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. No exceptions were found during this phase of the engineering audit.



A. KPI TEST FINDINGS

Elite Systems tested 1,075 locations (1,149 units) across 17 SACs and discovered that five locations did not meet the minimum required KPIs. The locations that did not meet the minimum KPIs were in Georgia and Texas. A location in Georgia did not meet the Download threshold, and we found that broadband service was not available at four locations in Texas.

The 1,075 locations were categorized into three service types: 932 (87%) copper, 90 (8%) fiber, and 53 (5%) fixed wireless. 1,021 (95%) of the locations were tested from the terminal at the closest publicly accessible point to the sample location. Table 3- Technology by SAC.

B. BUILDING TYPE FINDINGS

To qualify for CAF II, the location and unit must be in an inhabitable condition. Trailers, large businesses, some community centers (including places of worship), and empty lots are not eligible. Table 4 (Exceptions per Building Type) lists locations and units that are found to be ineligible and are reported as exceptions.

C. ADDRESS AND GEOLOCATION FINDINGS

Validating the street address and geolocation for all sample locations against what Windstream submitted in the HUBB was part of the location visit requirement. Elite Systems identified 210 locations (216 units) as having address or geolocation errors. Table 5 (Incorrect Addresses and Geolocations) lists the areas where these inaccuracies were detected

All tables are listed at the end of this report.

APPENDIX A: ADDITIONAL ANALYSIS

Elite Systems, as part of the documentation review process, undertook an investigation of the Windstream Services' website, as well as other advertising channels, are promoting broadband services for areas of interest. In addition, the data analysis team collected the billing rate and data allowance for current subscribers. Per Windstream documentation, Windstream offers broadband services with speeds ranging from 3Mbps to 1Gbps and pricing ranging from $39.99 to $69.99.

The review found that Windstream Services' 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.

Audit location Service Status	Audited Subscribers Status	Average of Total Monthly charges
Active	379	$97.08
Inactive	696	-

Table 6: Average Monthly Cost of Service

Tables

SAC: 150109 - New York	# of Locations	# of Units
Copper	*57*	*58*
Fiber	*4*	*5*
Fixed Wireless	*N/A*	*N/A*
SAC: 170176 - Pennsylvania	**# of Locations**	**# of Units**
Copper	*54*	*54*
Fiber	*8*	*8*
Fixed Wireless	*N/A*	*N/A*
SAC: 210336 - Florida	**# of Locations**	**# of Units**
Copper	*60*	*60*
Fiber	*2*	*2*
Fixed Wireless	*N/A*	*N/A*
SAC: 223037 - Georgia	**# of Locations**	**# of Units**
Copper	*61*	*61*
Fiber	*4*	*4*
Fixed Wireless	*N/A*	*N/A*
SAC: 230476 - North Carolina	**# of Locations**	**# of Units**
Copper	*55*	*55*
Fiber	*6*	*6*
Fixed Wireless	*N/A*	*N/A*
SAC: 240517 - South Carolina	**# of Locations**	**# of Units**
Copper	*58*	*58*
Fiber	*4*	*4*
Fixed Wireless	*N/A*	*N/A*
SAC: 250302 - Alabama	**# of Locations**	**# of Units**
Copper	*53*	*53*
Fiber	*8*	*8*
Fixed Wireless	*N/A*	*N/A*
SAC: 269690 - Kentucky	**# of Locations**	**# of Units**
Copper	*47*	*47*
Fiber	*15*	*15*
Fixed Wireless	*N/A*	*N/A*
SAC: 280453 - Mississippi	**# of Locations**	**# of Units**
Copper	*60*	*60*
Fiber	*5*	*5*
Fixed Wireless	*N/A*	*N/A*
SAC: 300665 - Ohio	**# of Locations**	**# of Units**
Copper	*54*	*54*
Fiber	*9*	*9*
Fixed Wireless	*N/A*	*N/A*
SAC: 351178 - Iowa	**# of Locations**	**# of Units**
Copper	*45*	*57*

Fiber	*N/A*	*N/A*
Fixed Wireless	*19*	*32*
SAC: 361414 - Minnesota	**# of Locations**	**# of Units**
Copper	*61*	*61*
Fiber	*N/A*	*N/A*
Fixed Wireless	*N/A*	*N/A*
SAC: 371568 - Nebraska	**# of Locations**	**# of Units**
Copper	*41*	*42*
Fiber	*10*	*10*
Fixed Wireless	*12*	*12*
SAC: 401691 - Arkansas	**# of Locations**	**# of Units**
Copper	*50*	*78*
Fiber	*7*	*7*
Fixed Wireless	*7*	*7*
SAC: 421885 - Missouri	**# of Locations**	**# of Units**
Copper	*57*	*75*
Fiber	*2*	*2*
Fixed Wireless	*12*	*12*
SAC: 431965 - Oklahoma	**# of Locations**	**# of Units**
Copper	*61*	*61*
Fiber	*2*	*2*
Fixed Wireless	*3*	*3*
SAC: 442147 - Texas	**# of Locations**	**# of Units**
Copper	*58*	*58*
Fiber	*4*	*4*
Fixed Wireless	*N/A*	*N/A*

Table 3: Technology Type by SAC

BUILDING TYPE FINDINGS

SAC: 210336 - Florida	**# of Locations**	**# of Units**
Empty Parcel	*3*	*3*
Invalid Structure	*N/A*	*N/A*
SAC: 223037 - Georgia	**# of Locations**	**# of Units**
Empty Parcel	*4*	*4*
Invalid Structure	*N/A*	*N/A*
SAC: 240517 - South Carolina	**# of Locations**	**# of Units**
Empty Parcel	*1*	*1*
Invalid Structure	*N/A*	*N/A*
SAC: 250302 - Alabama	**# of Locations**	**# of Units**
Empty Parcel	*3*	*3*
Invalid Structure	*N/A*	*N/A*
SAC: 269690 - Kentucky	**# of Locations**	**# of Units**
Empty Parcel	*N/A*	*N/A*
Invalid Structure	*1*	*1*
SAC: 280453 - Mississippi	**# of Locations**	**# of Units**
Empty Parcel	*3*	*3*
Invalid Structure	*N/A*	*N/A*
SAC: 300665 - Ohio	**# of Locations**	**# of Units**
Empty Parcel	*2*	*2*
Invalid Structure	*N/A*	*N/A*
SAC: 401691 - Arkansas	**# of Locations**	**# of Units**
Empty Parcel	*2*	*25*
Invalid Structure	*N/A*	*N/A*
SAC: 421885 - Missouri	**# of Locations**	**# of Units**
Empty Parcel	*2*	*2*
Invalid Structure	*N/A*	*N/A*
SAC: 230476 - North Carolina	**# of Locations**	**# of Units**
Empty Parcel	*2*	*2*
Invalid Structure	*N/A*	*N/A*
SAC: 351178 - Iowa	**# of Locations**	**# of Units**
Empty Parcel	*0*	*0*
Invalid Structure	*1*	*14*

Table 4: Exceptions per building type

ADDRESS AND GEOLOCATION FINDINGS

SAC: 240517 – South Carolina	# of Locations	# of Units
GPS	*6*	*6*
Physical Address	*3*	*3*
GPS and Address	*1*	*1*
SAC: 269690 - Kentucky	**# of Locations**	**# of Units**
GPS	*2*	*2*
Physical Address	*2*	*2*
GPS and Address	*N/A*	*N/A*
SAC: 300665 - Ohio	**# of Locations**	**# of Units**
GPS	*8*	*8*
Physical Address	*5*	*5*
GPS and Address	*1*	*1*
SAC: 351178 - Iowa	**# of Locations**	**# of Units**
GPS	*0*	*0*
Physical Address	*1*	*1*
GPS and Address	*1*	*1*
SAC: 361414 - Minnesota	**# of Locations**	**# of Units**
GPS	*2*	*2*
Physical Address	*1*	*1*
GPS and Address	*N/A*	*N/A*
SAC: 371568 - Nebraska	**# of Locations**	**# of Units**
GPS	*8*	*8*
Physical Address	*6*	*6*
GPS and Address	*2*	*2*
SAC: 401691 - Arkansas	**# of Locations**	**# of Units**
GPS	*N/A*	*N/A*
Physical Address	*6*	*8*
GPS and Address	*N/A*	*N/A*
SAC: 421885 - Missouri	**# of Locations**	**# of Units**
GPS	*7*	*9*
Physical Address	*8*	*9*
GPS and Address	*4*	*4*
SAC: 431965 - Oklahoma	**# of Locations**	**# of Units**
GPS	*4*	*4*
Physical Address	*4*	*4*
GPS and Address	*1*	*1*
SAC: 442147 - Texas	**# of Locations**	**# of Units**
GPS	*10*	*10*
Physical Address	*3*	*3*

GPS and Address	*3*	*3*
SAC: 250302 - Alabama	**# of Locations**	**# of Units**
GPS	*11*	*11*
Physical Address	*8*	*8*
GPS and Address	*1*	*1*
SAC: 210336 - Florida	**# of Locations**	**# of Units**
GPS	*6*	*6*
Physical Address	*5*	*5*
GPS and Address	*1*	*1*
SAC: 210336 - Georgia	**# of Locations**	**# of Units**
GPS	*6*	*9*
Physical Address	*5*	*5*
GPS and Address	*2*	*2*
SAC: 280453 - Mississippi	**# of Locations**	**# of Units**
GPS	*12*	*12*
Physical Address	*7*	*7*
GPS and Address	*2*	*2*
SAC: 230476 - North Carolina	**# of Locations**	**# of Units**
GPS	*6*	*6*
Physical Address	*9*	*9*
GPS and Address	*2*	*2*
SAC: 150109 – New York	**# of Locations**	**# of Units**
GPS	*10*	*11*
Physical Address	*9*	*9*
GPS and Address	*1*	*1*
SAC: 170176 – Pennsylvania	**# of Locations**	**# of Units**
GPS	*3*	*3*
Physical Address	*3*	*3*
GPS and Address	*1*	*1*

Table 5: Incorrect Addresses and Geolocations

Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: July 2026.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect**	USAC Management Recovery Action**	Entity Disagreement
Attachment A @link Services, LLC	4	• **Inadequate Documentation – Failure to Meet Minimum Service Standards Offered –** The Beneficiary claimed reimbursement for the broadband benefit for subscribers who received services that did not meet the minimum service standards.	$51,614	$55,632	$51,614	N/A
Total	**4**		**$51,614**	**$55,632**	**$51,614**	

** The Monetary Effect amount may exceed the Amount of Support and the USAC Management Recovery Action as there are findings that had overlapping exceptions that exist in multiple findings. Thus, the USAC Management Recovery Action amount is less than the Monetary Effect to prevent a double-recovery of funds as the total recovery cannot exceed the total amount of support the Beneficiary received.

Attachment A

LI2023LR001

@link Services, LLC

Audit ID: LI2023LR001

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: May 27, 2026

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

May 27, 2026

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 @Link Services, LLC ("AtLink" or "Beneficiary") for Study Area Code ("SAC") 439077, 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 May 27, 2026, and our results are as of May 27, 2026.

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

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

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

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

As our report further describes, KPMG identified four 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's determination is based on the facts and circumstances in this audit and is neither binding nor limiting to any other past or future KPMG, USAC or FCC verification, audit, or investigation.

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

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 May 27, 2026.

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: Michelle Garber, USAC Interim Chief Executive Officer
Tim O'Brien, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions* (B)	Recommended Recovery (C) = (A) – (B)
LI2023LR001-F01: 47 C.F.R. §54.408(e) – Inadequate Documentation - Failure to Meet Minimum Service Standards Offered. The Beneficiary claimed the broadband benefit for subscribers who received service that did not meet the minimum service standards.	$51,614	$0	$51,614
47 C.F.R. § 54.407(c) - Improper Non-Usage Process: Usage Tracking. The Beneficiary did not track usage for subscribers on its Lifeline service plans where the Beneficiary assessed but did not collect a monthly fee due to Lifeline and Affordable Connectivty Program credits netting bills to $0.	$2,980	$2,980	$0
LI2023LR001-F03: 47 C.F.R. § 54.201(b) - Subscribers Outside of Service Area. The Beneficiary claimed subscribers that were located outside of its designated ETC service area.	$614	$614	$0
LI2023LR001-F04: 47 C.F.R. § 54.407(a) – Improper Subscribers Claims for Service Not Provided. The Beneficiary claimed the Lifeline benefit for five subscribers it did not serve during the month claimed.	$424	$424	$0
Total Monetary Effect	**$55,632**	**$4,018**	**$51,614**

*The amounts identified as Overlapping Exceptions represent subscriber claims already captured in the monetary effect of another finding within the report. As a subscriber claim can only be recovered once, overlapping instances are removed to calculate the true recommended recovery.

USAC MANAGEMENT RESPONSE

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

BACKGROUND, OBJECTIVE, SCOPE, AND PROCEDURES

BACKGROUND

Beneficiary Overview

The Beneficiary is a competitive 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.

The Beneficiary is located in Oklahoma City, OK, and provides wireless internet services and Voice over Internet Protocol ("VoIP") services. The Beneficiary operates in the state 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
439077	Oklahoma	Tribal Lifeline	1,216	$41,648
439077	Oklahoma	Non-Tribal Lifeline	245	$2,266
439077	Oklahoma	Tribal Linkup	77	$7,700
TOTAL			**1,538**	**$51,614**

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, or for tribal subscribers, outside the designated tribal area.
   - The data file contained duplicate subscribers.
   - The data file contained deceased subscribers.
   - The data file contained blank social security, date of birth, telephone number, address fields or business names/addresses.
   - Lifeline program support was provided to subscribers whose lines were activated after the audit period.
   - Lifeline program support was provided to subscribers whose lines were disconnected prior to the audit period.
   - The subscribers who received Tribal Link Up support also received Tribal Lifeline support.
   - New Tribal subscribers who activated during the audit period received Tribal Link Up support.

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 subscriber bills to demonstrate that the Beneficiary passed through Lifeline program support to a sample of 28 subscribers as a credit on each monthly bill 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 28 subscribers and confirmed that the Beneficiary assessed and collected a monthly fee for 12 out of the 28 subscribers and, thus, was not subject to the requirements of monitoring whether these subscribers used the service within the last 30 days or cured their non-usage. We noted 16 out of 28 subscribers received both Lifeline and ACP credits that netted the monthly bill balance to $0. A monthly fee was assessed, but as no monthly fee was collected, the Beneficiary was subject to the requirements of monitoring whether these subscribers used the service within the last 30 days or cured their non-usage.

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 provides wireless internet and VoIP via equipment on leased or owned towers. Accordingly, the Beneficiary does not lease lines to provide service to Lifeline subscribers, and therefore, no further 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 also examined pay and bonus calculation documentation for one enrollment agent and one supervisor utilized by the Beneficiary to determine whether the Beneficiary compensates its enrollment representatives and/or their direct supervisors on a commission basis. Limited activity analysis was conducted for sampling purposes only in this audit.

RESULTS

KPMG's limited review performance audit results include each finding, recommendation and Beneficiary response, and an estimate of the monetary impact of such finding relative to Part 54 of the FCC's Rules, applicable to the disbursements made from the Lifeline program for July 1, 2021 to June 30, 2022. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

KPMG identified four findings. Details of the findings, including the condition, cause, effect, recommendation and Beneficiary Response are below:

LI2023LR001-F01: 47 C.F.R. §54.408(e) – Inadequate Documentation - Failure to Meet Minimum Service Standards Offered

CONDITION

KPMG obtained a list of the Beneficiary's broadband service plans offered to Lifeline subscribers and noted that not all service plans offered met the minimum service standards. KPMG obtained and reviewed invoices for a judgmental sample of 28 Lifeline subscribers and noted that none of the sample subscribers received service plans that met the broadband minimum service standards. KPMG further obtained a billing register for the population of 237 Lifeline subscribers claimed during the audit period, and noted none of the subscribers in the population received service plans that met the broadband minimum service standards, but were claimed for the broadband benefit of $9.25. The level of service provided to the Lifeline subscribers ranged from 3 Mbps to 10 Mbps downstream, though this list of plans offered during the audit period included multiple plans with 25 Mbps downstream/ 3 Mbps upstream. Per inquiry on June 27, 2024, the Beneficiary indicated the service available on each tower varies based on distance, height, trees, buildings, hills, etc. We received an example report of packages by tower for June to September 2021, which indicated the highest package available at each tower, but we did not receive a report covering the full audit period. We also did not receive reporting to identify the tower each Lifeline subscriber was associated with during the audit period. The Beneficiary did not provide sufficient documentation to demonstrate that Lifeline subscribers received the highest level of service available in a given area or tower that was at least 4 Mbps downstream/ 1 Mbps upstream. As the Beneficiary had the capability to provide higher levels of service and did not provide documentation to demonstrate that each subscriber received the highest level of service available that was at least 4 Mbps downstream/ 1 Mbps upstream where 25 Mbps downstream/ 3 Mbps upstream service was unavailable,[1] the Beneficiary is not eligible for an exception to the minimum service standard requirement for broadband. Therefore, KPMG notes that the Beneficiary incorrectly claimed the full Lifeline support for broadband subscribers who were ineligible for the broadband benefit because their service plans did not meet the minimum service standards for fixed broadband service.

CAUSE

The Beneficiary lacked sufficient understanding of the FCC rules and the related evidence requirements to demonstrate compliance with minimum service standards.

[1] 47 C.F.R. § 54.408(d)-(e) (2021).

EFFECT

KPMG calculated the monetary effect for this finding by determining the number of instances (months) each of the 237 subscribers were claimed for reimbursement, including Tribal Link Up, during the audit period. KPMG identified a total of 1,538 such instances. KPMG multiplied the 1,538 instances by the support amount requested in the LCS submissions and rounded to the nearest whole dollar. The results are summarized below:

SAC Number	Support Type	Instances (A)	Rate (B)	Monetary Effect Total (C) = (A) * (B)
439077	Tribal Lifeline	1,216	$34.25	$41,648
439077	Tribal Link Up	77	$100	$7,700
439077	Lifeline	245	$9.25	$2,266
TOTAL		1,538		**$51,614**

*Rounding by SAC by Support Type may cause the total to vary slightly from the total for this finding noted in the Audit Results and Recovery Action section.

RECOMMENDATION

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

The Beneficiary should enhance its understanding of the FCC rules establishing minimum service standards and must implement a review process to verify that all Lifeline subscribers claimed for the broadband benefit are receiving the required minimum service standard and can be supported by proper documentation. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

Benefeciary [sic] believes sufficient evidence can be gathered and submitted, but at present the manpower and time needed are not available. The process by which this information would be gathered is manual and time consuming. In June of 2024 there was a merger in which there was a large increase in workload. Shortly thereafter there were several reductions in force which burdened an already overloaded staff. Exceptions in this section have been noted and evidence will be gathered as time allows so that we might be able to respond to USAC at a later date.

KPMG RESPONSE

KPMG notes that the Beneficiary acknowledges sufficient documentation has not been provided.

LI2023LR001-F02: 47 C.F.R. § 54.407(c) - Improper Non-Usage Process: Usage Tracking

CONDITION

KPMG obtained and reviewed invoices for a statisically valid sample of 28 subscribers. For 16 of the 28 subscribers we observed that while the Beneficiary assessed a monthly fee for service, they did not collect a monthly fee due to Lifeline and Affordable Connetivity Program credits netting the bills to $0. The Beneficiary did not collect a monthly fee for these subscribers per the FCC Rules,[2] and as a result,

[2] 47 C.F.R. § 54.407(c) (2021).

the Beneficiary was subject to usage tracking requirements to verify that the subscribers were maintaining their program eligibility. Per inquiry on September 16, 2025, the Beneficiary noted they did not track usage for these subscribers and did not retain historical usage data as evidence. The claims in LCS for the 16 subscribers are invalid as the Beneficiary was unable to demonstrate usage in the absence of assessing and collecting a monthly fee.

CAUSE

The Beneficiary lacked sufficient understanding of the FCC Rules regarding the definition of assessing and collecting a monthly fee.

EFFECT

KPMG calculated the monetary effect for this finding by determining the number of instances (months) each of the 16 subscribers were claimed for reimbursement during the audit period. KPMG identified a total of 98 such instances. KPMG multiplied the 98 instances by the support amount requested in the LCS submissions and rounded to the nearest whole dollar. The results are summarized below:

SAC Number	Support Type	Instances (A)	Rate (B)	Total (C) = (A) * (B)	Overlapping (D)	Recommended Recovery (E) = (C) – (D)
439077	Tribal Lifeline	87	$34.25	$2,980	$2,980	$0
TOTAL		87		**$2,980**	**$2,980**	**$0**

*Rounding by SAC by Support Type may cause the total to vary slightly from the total for this finding noted in the Audit Results and Recovery Action section.

RECOMMENDATION

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

The Beneficiary should enhance its understanding of the FCC rules regarding assessing and collecting a monthly fee and must implement a review process to verify that all Lifeline subscribers are monitored for usage when a monthly fee is not assessed and collected. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

At present, beneficiary is providing screen shots of call logs to show communication with customers and usage of their services. Additional usage information can likely be provided such as service calls and saas installation information post USAC review. Again, manpower and time are an issue at this time. We anticipate the ability to take on additional projects in early to mid 2026.

KPMG RESPONSE

KPMG received screenshots of customer service logs on October 6, 2025, but the customer service call notes were not sufficient to demonstrate that the customer had qualified usage every 30 days. As such, our finding condition and recommendation remain unchanged

LI2023LR001-F03: 47 C.F.R. §54.201(b) - Subscribers Outside of Service Area

CONDITION

KPMG mapped the addresses for the 237 subscribers claimed in the LCS during the audit period to determine whether the Beneficiary provided services to subscribers who resided in the areas where it was designated as an ETC.[3, 4, 5, 6] KPMG identified two subscriber addresses that were outside of the authorized ETC service area for SAC 439077. The Beneficiary provided the latitude and longitude data for both addresses, but both locations still mapped to exchange areas that were outside of the Beneficiary's designated ETC service area and were therefore ineligible to be claimed for the Lifeline benefit by the Beneficiary.[7]

CAUSE

The Beneficiary did not have adequate processes and controls in place to ensure that subscribers outside of their designated ETC service area were not claimed for the Lifeline benefit.

EFFECT

KPMG calculated the monetary effect for this finding by determining the number of instances (months) the two subscribers were claimed for reimbursement, including Tribal Link Up, during the audit period. KPMG identified a total of 16 such instances. KPMG multiplied the 16 instances by the support amount requested in the LCS submissions and rounded to the nearest whole dollar. The results are summarized below:

[3] 47 C.F.R. §54.201(b) and 47 C.F.R. § 54.201(d) (2021).

[4] Application of @link Services, LLC for Designation as an Eligible Telecommunications Carier Pursuant to the Telecommunications Act of 1996, Cause No. PUD 201800107, Order No. 690248, January 24, 2019 (The Corporation Commission of Oklahoma designated the Beneficiary's ETC in the Arcadia, Bethany, Bristow, Cashion, Catoosa, Chandler, Chelsea, Cleveland, Colcord, Copan, Coyle, Cushing, Drumright, Edmond, El Reno, Guthrie, Harrah, Holdenville, Hominy, Kiefer, Luther, McAlester, Midwest City, Milburn, Moore, Mulhall, Oilton, Oklahoma City, Okmulgee, Perkins, Ripley, Sapulpa, Shawnee, Skiatook, Spencer, Stillwater, Tulsa, Tuttle, Wellston, Wetumka, Wheatland, and Yale exchanges of Southwestern Bell Telephone Company d/b/a AT&T Oklahoma and the specific census blocks identified within the Maysville, Meeker, Paden, Prague, Purcell, Stroud, and Wayne exchanges of Windstream Oklahoma, LLC.).

[5] Application of @link Services, LLC for Designation as an Eligible Telecommunications Carier Pursuant to the Telecommunications Act of 1996, Cause No. PUD 202100170, Order No. 723948, March 3, 2022 (The subsequent expansion orders included the assigned census blocks identified within the Southwestern Bell Telephone Company d/b/a AT&T Oklahoma exchanges of Holdenville, Wetumka, Allen, Calvin, and the Gerty exchange within Windstream Oklahoma, LLC.).

[6] Application of @link Services, LLC for Designation as an Eligible Telecommunications Carier Pursuant to the Telecommunications Act of 1996, Cause No. PUD 202200012, Order NO. 727586, August 11, 2022 (The subsequent expansion orders included the assigned census blocks identified within Southwestern Bell Telephone Company d/b/a AT&T Oklahoma exchanges of Yukon, Bethany, Drumright, Oilton, Okmulgee, Holdenville, Cushing, Carney, Chandler, Meridian, Wellston, Guthrie, Edmond, Arcadia, Mulhall, Pawhuska, Ponca City, Ralston, Bartlesville, Dewy, Copan, Sand Springs, Skiatook, Sperry, Cleveland, Tulsa, Pawnee, Yale, Glencoe, and Morrison, and in the Valor Telecommunications of Texas LLC d/b/a Windstream Communications Southwest exchanges of Fairfax, Barnsdall, Avant, and Kaw City.).

[7] 47 C.F.R. § 54.207(a) (2021).

SAC	Support Type	Instances/ Months Claimed (A)	Rate (B)	Total (C) = (A) * (B)	Overlapping (D)	Recommended Recovery (E) = (C) – (D)
439077	Tribal	15	$34.25	$514	$514	$0
439077	Tribal Link Up	1	$100	$100	$100	$0
TOTAL		**16**		**$614**	**$614**	**$0**

*Rounding by SAC by Support Type may cause the total to vary slightly from the total for this finding noted in the Audit Results and Recovery Action section.

RECOMMENDATION

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

The Beneficiary should implement policies, procedures, and controls to ensure that it claims Lifeline Program support only for eligible subscribers who reside within the Beneficiary's designated service area. Specifically, the Beneficiary must develop a process to identify that they only submit claims for Lifeline for subscribers that reside within the Beneficiary's designated service area. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

Beneficiary does not have a response at this time.

LI2023LR001-F04: 47 C.F.R. § 54.407(a) - Improper Subscribers Claims for Service Not Provided

CONDITION

KPMG compared the LCS subscribers claimed during the audit period to the Beneficiary's billing register and noted 82 subscribers were not included in the initial billing register provided. The Beneficiary noted that the original report excluded any accounts that were no longer active and then provided account status details and screenshots from the billing system to support all the missing subscribers. KPMG observed that five of these subscribers had a status of "FAIL ONSITE" indicating that the service was not successfully setup and the subscriber was never activated. Thus, the Beneficiary incorrectly claimed five subscribers that it did not directly serve for one or more months before being removed by the Beneficiary.

CAUSE

The Beneficiary did not have adequate processes and controls in place to ensure that subscribers were not claimed before successful service activation.

EFFECT

KPMG calculated the monetary effect for this finding by determining the number of instances (months) the five subscribers identified in the condition above were claimed for reimbursement during the audit period. KPMG identified a total of 10 such instances. KPMG multiplied the 10

instances by the support amount requested in the LCS submissions and rounded to the nearest whole dollar. The results are summarized below:

SAC	Support Type	Instances/ Months Claimed (A)	Rate (B)	Total (C) = (A) * (B)	Overlapping (D)	Recommended Recovery (E) = (C) – (D)
439077	Tribal	6	$34.25	$206	$206	$0
439077	Tribal Link Up	2	$100	$200	$200	$0
439077	Non-Tribal	2	$9.25	$19	$19	$0
TOTAL		**10**		**$425**	**$425**	**$0**

*Rounding by SAC by Support Type may cause the total to vary slightly from the total for this finding noted in the Audit Results and Recovery Action section.

RECOMMENDATION

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

The Beneficiary should enhance its processes and controls to ensure that it claims Lifeline Program support only for eligible subscribers it directly serves. Specifically, the Beneficiary must implement a review process to verify that all Lifeline subscribers are claimed only after successful service activation. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

Beneficiary does not have a response at this time.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.408(d)-(e) (2021)	"(d) Exception for certain fixed broadband providers. Subject to the limitations in paragraphs (d)(1) through (4) of this section, the Lifeline discount may be applied for fixed broadband service that does not meet the minimum standards set forth in paragraph (b)(1) of this section. If the provider, in a given area: (1) Does not offer any fixed broadband service that meets our minimum service standards set forth in paragraph (b)(1) of this section; but (2) Offers a fixed broadband service of at least 4 Mbps downstream/1 Mbps upstream in that given area; then, (3) In that given area, a fixed broadband provider may receive Lifeline funds for the purchase of its highest performing generally available residential offering, lexicographically ranked by: (i) Download bandwidth; (ii) Upload bandwidth; and (iii) Usage allowance. (4) A fixed broadband provider claiming Lifeline support under this section will certify its compliance with this section's requirements and will be subject to the Commission's audit authority. (e) Except as provided in paragraph (d) of this section, eligible telecommunications carriers shall not apply the Lifeline discount to offerings that do not meet the minimum service standards."
#1	DA 20-820 (2020)	"Fixed broadband minimum service standards. Pursuant to the 2016 Lifeline Order, beginning December 1, 2020, the Lifeline minimum service standard for fixed broadband speed will be 25 Mbps downstream and 3 Mbps upstream, as calculated from FCC Form 477 data. We note that the Commission provides an exception to the fixed broadband minimum service speed standard when the Lifeline provider does not offer any generally available residential fixed broadband packages that meet the minimum service standard at a subscriber's residence. In such situations, the Lifeline provider may receive Lifeline support for the highest performing generally available residential fixed broadband service offering of at least 4 Mbps downstream and 1 Mbps upstream."

Finding	Criteria	Description
#2	47 C.F.R. § 54.407(c) (2021)	"An eligible telecommunications carrier offering a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers: (1) Shall not receive universal service support for a subscriber to such Lifeline service until the subscriber activates the service by whatever means specified by the carrier, such as completing an outbound call; and (2) After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 30 days, or who have cured their non-usage as provided for in § 54.405(e)(3). Any of these activities, if undertaken by the subscriber, will establish "usage" of the Lifeline service: (i) Completion of an outbound call or usage of data; (ii) Purchase of minutes or data from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving Lifeline service; or (v) Sending a text message."
#3	47 C.F.R. § 54.201(d) (2021)	"A common carrier designated as an eligible telecommunications carrier under this section shall be eligible to receive universal service support in accordance with section 254 of the Act and, except as described in paragraph (d)(3) of this section, shall throughout the service area for which the designation is received: (1) Offer the services that are supported by federal universal service support mechanisms under subpart B of this part and section 254(c) of the Act, either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and (2) Advertise the availability of such services and the charges therefore using media of general distribution.

Finding	Criteria	Description
		(3) *Exception.* Price cap carriers that serve census blocks that are identified by the forward-looking cost model as low-cost, census blocks that are served by an unsubsidized competitor as defined in § 54.5 meeting the requisite public interest obligations specified in § 54.309, or census blocks where a subsidized competitor is receiving federal high-cost support to deploy modern networks capable of providing voice and broadband to fixed locations, are not required to comply with paragraphs (d)(1) and (2) of this section in these specific geographic areas. Such price cap carriers remain obligated to maintain existing voice telephony service in these specific geographic areas unless and until a discontinuance is granted pursuant to § 63.71 of this chapter."
#3	Application of @link Services, LLC for Designation as an Eligible Telecommunications Carier Pursuant to the Telecommunications Act of 1996, Cause No. PUD 201800107, Order No. 690248, January 24, 2019	"THE COMMISSION FURTHER FINDS that @Link Services, LLC has met all state and federal requirements for designation as an ETC throughout the requested service territory and exchanges."
#3	Application of @link Services, LLC for Designation as an Eligible Telecommunications Carier Pursuant to the Telecommunications Act of 1996, Cause No. PUD 202100170, Order No. 723948, March 3, 2022	"THE COMMISSION FURTHER FINDS that @Link Services, LLC has met all state and federal requirements for designation as an ETC throughout the requested service territory and exchanges."
#3	Application of @link Services, LLC for Designation as an Eligible Telecommunications Carier Pursuant to the Telecommunications Act of 1996, Cause No. PUD 202200012, Order NO. 727586, August 11, 2022	"THE COMMISSION FURTHER FINDS that @Link Services, LLC has met all state and federal requirements for designation as an ETC throughout the requested service territory and exchanges."

Finding	Criteria	Description
#3	47 C.F.R § 54.207(a) (2021)	"The term service area means a geographic area established by a state commission for the purpose of determining universal service obligations and support mechanisms. A service area defines the overall area for which the carrier shall receive support from federal universal service support mechanisms."
#4	47 C.F.R. § 54.407(a) (2021)	"Universal Service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income customers listed in the National Lifeline Accountability Database that the eligible telecommunications carrier serves directly as of the first of the month. Eligible telecommunications carriers operating in a state that has provided the Commission with an approved valid certification pursuant to § 54.404(a) must comply with that state administrator's process for determining the number of subscribers to be claimed for each month, and in those states Universal Service support for providing Lifeline shall be provided directly to the eligible telecommunications carrier based on that number of actual qualifying low-income customers, according to the state administrator or other state agency's process."

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. We identified four findings as presented in the Audit Results and Recovery Action section.

** This concludes the audit report.**

Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: August 2026.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment B Triangle Telephone Cooperative Association, Inc.	1	• No significant findings.	$135,078	$5,081	$5,081	N
Total	**1**		**$135,078**	**$5,081**	**$5,081**	

Attachment B

LI2024LR005

Triangle Telephone Cooperative Association, Inc.

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

USAC Audit No. LI2024LR005

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Universal Service Administrative Co.

EXECUTIVE SUMMARY

February 12, 2026

Mark Majeres
CFO
Triangle Telephone Cooperative Association, Inc.
2121 Hwy 2 N.W.
Havre, MT 59501-1220

Dear Mr. Majeres:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Triangle Telephone Cooperative Association, Inc. (the Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers during the 12 month period from July 1, 2022 through June 30, 2023, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communication Commission [FCC] Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination disclosed one detailed audit finding discussed in the Audit Result and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period. USAC's determination is based on the circumstances in this audit and is neither binding nor limiting to any other past or future USAC, or FCC verification, audit, or investigation.

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

Universal Service Administrative Co.

We appreciate the cooperation and assistance you and your staff provided during the audit.

Sincerely,



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

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

Universal Service Administrative Co.

AUDIT RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery
Finding: 47 C.F.R. § 54.407(b) (2022) - Failure to Pass Through Full Lifeline Support. The Beneficiary claimed an amount in the Lifeline Claims System that exceeded the amount passed through a monthly Lifeline credit to 315 subscribers.	$5,081
Total	**$5,081**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the 12-month period from July 1, 2022 through June 30, 2023 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
482257	Montana	Tribal Lifeline	3076	$101,789
		Lifeline	676	$5,116
483310	Montana	Tribal Lifeline	693	$23,157
		Lifeline	619	$5,016
		Total	**5,064**	**$135,078**

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

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

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

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

B. Lifeline Subscriber Discounts

AAD obtained and examined the Beneficiary's billing register to demonstrate that the Beneficiary passed through Lifeline program support to all subscribers as a discount on the monthly bills and confirmed whether the amount agreed to its monthly LCS claims.

C. Usage Process

AAD obtained an understanding from the Beneficiary whether it assessed and collected a monthly fee from its subscribers. While the Beneficiary asserted that it assessed and collected a monthly fee, AAD confirmed that the Beneficiary did not consistently collect a monthly fee for a portion of its subscribers. Thus, AAD obtained an understanding of whether the Beneficiary monitored subscribers' accounts for evidence of valid usage activities per the FCC Rules, and only claimed in LCS the subscribers who used the service within the last 30 days or who cured their non-usage. AAD obtained and examined documentation for 30 subscribers and confirmed that the Beneficiary properly monitored and claimed for subscribers who used the service within the last 30 days, or cured their non-usage. The scope of this audit did not include an assessment of the Beneficiary's systems that provision, process, and monitor subscribers' usage activities.

D. Minimum Service Standard

AAD obtained and examined the Beneficiary's evidence of the level of service provided for all subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and the related amount claimed to the LCS agree with the amount permitted based on the service offerings to its Lifeline subscribers.

E. Reseller-based Telecommunication Providers

AAD obtained and examined documentation to determine whether the Beneficiary is a reseller of telecommunication services, and if so, AAD compared the number of leased lines to the number of

subscribers claimed in the LCS. The evidence confirmed that the Beneficiary is not a reseller of telecommunications.

F. Enrollment Representative Accountability

AAD obtained an understanding from the Beneficiary's enrollment representatives internally and, if so, assessed the Beneficiary's enrollment representative process relating to the Lifeline program to determine whether the Beneficiary complied with the FCC Rules. AAD obtained and examined documentation for four enrollment representatives to determine whether the Beneficiary compensates its enrollment representatives on a commission basis.

Universal Service Administrative Co.

DETAILED AUDIT FINDING

FINDING: 47 C.F.R. § 54.407(b) (2022) – Failure to Pass Through Full Lifeline Support

CONDITION

AAD obtained and examined the Beneficiary's billing register and Lifeline Claim System (LCS) submissions for the audit period and matched all the subscribers' monthly claims per LCS to the subscribers' amount credited on the billing register to ensure the Beneficiary passed the Lifeline support onto the subscribers in the full amount of support as claimed per month.[1] AAD determined that for 314 of the 650 Lifeline subscribers, the amount claimed by the Beneficiary in LCS exceeded the amount passed through to the subscribers. See below for further details:

The amount disbursed to the Beneficiary exceeded the amount passed through to the subscribers,[2] as detailed below:

Subscribers Affected	LCS (A)	Billing Register (B)	Difference (C)=(A)-(B)
315	$13,129	$8,048	$5,081

The FCC Rules require that the Beneficiary pass through to subscribers the full amount of Lifeline support, equal to the Lifeline support USAC reimbursed to the Beneficiary.[3] Since the Beneficiary was reimbursed a monthly amount higher than the amount it passed through to its subscribers, AAD concludes that the Beneficiary did not pass through the full monthly amount of Lifeline support claimed per LCS.

CAUSE

The Beneficiary did not have adequate controls and procedures in place to address the requirement to pass through the full amount of Lifeline support per month. For the noted 315[4] subscribers, 297 new subscribers received a pro-rated Lifeline support in their first month of service based on their enrollment date and 23 subscribers did not receive the full Lifeline support claimed by the Beneficiary in the LCS for one or more months.[5]

EFFECT

AAD calculated the monetary effect of this finding by determining the difference between the monthly Lifeline support for the 315 subscribers per the LCS and the Lifeline support passed on to the subscribers per the billing register, rounded to the nearest dollar. AAD summarized the results below:

---

[1] 47 C.F.R. § 54.403(a)(1),(3) (2022).
[2] 47 C.F.R. § 54.407(b) (2022).
[3] 47 C.F.R. § 54.403(a)(1) (2022), 54.407(b) (2022).
[4] Five subscribers did not receive the full Lifeline support due to both stated causes.

[5] Beneficiary response to AIR #43 received on Feb. 12, 2026.

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
482257	Tribal Lifeline	$4,033
482257	Lifeline	$188
483310	Tribal Lifeline	$691
483310	Lifeline	$169
	Total	**$5,081**

RECOMMENDATION

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

The Beneficiary must implement policies, controls, and procedures to ensure that the full monthly amount of Lifeline Program support claimed in the LCS is passed through to Lifeline subscribers. In addition, the Beneficiary may learn more about the Lifeline program requirements on USAC's website at https://www.usac.org/about/appeals-audits/common-findings/common-audit-findings-lifeline-program/#.

BENEFICIARY RESPONSE

Triangle accepts the findings of the audit.

CRITERIA

47 C.F.R § 54.407(b) (2021):

> For each qualifying low-income consumer receiving Lifeline service, the reimbursement amount shall equal the federal support amount, including the support amounts described in § 54.403(a) and (c). The eligible telecommunications carrier's universal service support reimbursement shall not exceed the carrier's rate for that offering, or similar offerings, subscribed to by consumers who do not qualify for Lifeline.

47 C.F.R. § 54.403(a)(1) and (3) (2021)

> (1) Basic support amount.
> Federal Lifeline support in the amount of $9.25 per month will be made available to an eligible telecommunications carrier providing Lifeline service to a qualifying low-income consumer, except as provided in paragraph (a)(2) of this section, if that carrier certifies to the Administrator that it will pass through the full amount of support to the qualifying low-income consumer and that it has received any non-federal regulatory approvals necessary to implement the rate reduction.
>
> (3) Tribal lands support amount.
> Additional Federal Lifeline support of up to $25 per month will be made available to an eligible telecommunications carrier providing Lifeline service to an eligible resident of Tribal lands, as defined in § 54.400(e), to the extent that the eligible telecommunications carrier certifies to the Administrator that it will pass through the full Tribal lands support amount to the qualifying eligible resident of Tribal lands and that it has received any non-Federal regulatory approvals necessary to implement the required rate reduction.

This concludes the report.