High Cost & Low Income Committee

Audit Report Briefing Book

Monday, January 26, 2026

Available for Public Use

Universal Service Administrative Company

700 12th Street, NW, Suite 900

Washington, DC, 20005

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action*	Entity Disagreement
Attachment A Paul Bunyan Rural Telephone Cooperative	2	• No significant findings.	$1,831,200	$2,394+	$2,394+	Partial
Attachment B Tenino Telephone Company	0	• Not applicable.	$1,610,895	$0	$0	N/A
Attachment C Penasco Valley Telephone Cooperative, Inc.	4	• No significant findings.	$7,375,599	($24,973)	$0	Partial
Attachment D Craw-Kan Telephone Cooperative, Inc.	3	• No significant findings.	$8,442,306	$25,988	$25,988	N
Attachment E Laurel Highland Telephone Company	3	• No significant findings.	$1,653,528	$8,646	$8,646	Partial
Attachment F Terral Telephone Company	2	• No significant findings.	$605,634	$26,307	$26,307	N
Attachment G Hartman Telephone Exchange, Inc.	0	• Not applicable.	$214,872	$0	$0	N/A

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action*	Entity Disagreement
Total	**14**		**$21,734,034**	**$38,362**	**$63,335**	

* The USAC Management Recovery Action may be less than the Monetary Effect as the circumstances did not warrant a recovery of funds (i.e., the Beneficiary's equipment was installed or service provider reimbursed the E-Rate program prior to audit completion).

[+] The Monetary Effect and USAC Management Recovery Action may differ depending upon when, or if, the Beneficiary comes back into compliance.

Attachment A

HC2021MO039

Universal Service Administrative Co.

Paul Bunyan Rural Telephone Cooperative

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

USAC Audit No. HC2021MO039

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EXECUTIVE SUMMARY

February 18, 2025

Craig Boyer, Chief Financial Officer
Paul Bunyan Rural Telephone Cooperative
1831 Anne Street NW
Bemidji, MN 56601

Dear Craig Boyer:

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

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

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

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

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

Sincerely,

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

cc: 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	RBE Monetary Effect and Recommended Withholding
Finding #1: RBE Order (FCC 14-98) - Locations Did Not Meet Public Interest Obligations. The Beneficiary failed to comply with the speed or the location eligibility requirements for nine out of 124 units selected.	$399 per month for the first six months until the Beneficiary comes into compliance but increases to $1,994 per month for the next six months until the Beneficiary comes into compliance.
Finding #2: FCC DA 16-1363 (2016) – Inaccurate Location Information Reported on the HUBB. The Beneficiary reported incorrect addresses for one out of 124 units selected.	$0

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results for SAC 366132 and 366133 for the High Cost Program support. HC Program will initiate the recommended withholding of support upon receipt of the FCC letter.

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

State	SAC	RBE Support as of February 18, 2025[1]	No. of Locations Reported and Certified in the HUBB as of 3/1/2022[2]	No of Units Reported and Certified in the HUBB as of 3/1/2022[3]	No. of Units Tested
Minnesota	366132	$938,000	1,068	1,068	60
Minnesota	366133	$893,200	856	857	64
	Total	**$1,831,200**	**1,924**	**1,925**	**124**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. Deployment Milestone Requirements

AAD compared the number of units the Beneficiary reported and certified in the High Cost Universal Broadband (HUBB) portal at the last milestone to determine whether the Beneficiary satisfied the requirements based on the FCC's support authorization letter.[4]

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

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

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[1] The Beneficiary is scheduled to receive RBE disbursements until October 2025 up to the FCC authorized amount of $1,005,000 for SAC 366132 and $957,000 for SAC 366133.

[2] RBE support recipients are required to report deployed locations on a yearly basis by March 1.

[3] *Id.*

[4] *Rural Broadband Experiment Support Authorized for Winning Bids Submitted by … Paul Bunyan Rural Telephone Cooperative,* WC Docket No. 10-90, Public Notice, DA 15-1306 (2015).

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

C. Location Eligibility, Address and Coordinates

AAD examined the locations[5] the Beneficiary reported and certified in the HUBB portal to determine whether the locations qualify as eligible for support by testing the accuracy of the geocodes for each sampled location. AAD used mapping software and other data analysis techniques to determine whether those geocodes existed within the carrier's eligible census blocks. In addition, AAD assessed whether the locations meet the FCC deployment criteria, and that service can be provided within 10 business days upon request.[6] AAD also assessed whether the Beneficiary accurately reported and certified eligible locations in the HUBB portal by examining the correct count of housing units, unique latitude and longitude coordinates, and the appearance of the reported structures.[7]

D. Minimum Deployment Requirements

AAD examined the locations the Beneficiary reported and certified in the HUBB portal to determine whether the Beneficiary deployed requisite services to meet the minimum deployment obligations. Specifically, we confirmed whether the location was in an eligible census block, meeting the public interest obligations for offering broadband service (at least specific Mbps downstream/Mbps upstream per line of credit) with latency suitable for real-time applications (including VoIP), usage capacity that is reasonably comparable to offerings in urban areas and assessing rates that are reasonably comparable to offerings in urban areas.[8]

E. Site Visits

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

F. Performance Measures Module Comparison

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

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

[6] *Wireline Competition Bureau Provides Guidance to Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations,* WC Docket No. 10-90, Public Notice, 31 FCC Rcd 12900, 12901, para. 6, n. 11 (2016) (*Guidance on Location Reporting)*.

[7] *Id.* at 12905, para. 21 (Do's and Don'ts).

[8] *See* 47 C.F.R. § 54.310(c).

DETAILED AUDIT FINDING

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

CONDITION

AAD selected a statistically valid sample of 124 units (123 locations)[9] that the Beneficiary reported and certified in the HUBB portal for the RBE support at the 100 percent milestone and, using an independent engineering firm, performed physical inspections to determine whether the locations were eligible for RBE support, the related geocodes were reported and certified accurately in the HUBB portal, and the locations met the public interest obligations for offering broadband service (at least 100 Mbps downstream/25 Mbps upstream)[10] with latency suitable for real-time applications (less than 100 milliseconds). During the site visit, the independent engineering firm noted an ineligible or no structures on six of the locations; thus, we concluded that the Beneficiary did not deploy broadband to locations with an eligible structure,[11] as detailed below:

SAC	Type of Failure	No. of Failed Units
366132	No eligible structure	3
366133	No eligible structure	3
366133	Inadequate speed (download)	3

The Beneficiary asserts that one location relates to a small business, and for the remaining locations, the Beneficiary makes the assumption that if there is an address assigned to the parcel, there is a dwelling on the parcel; if not, there once was, or there will soon be one. However, during the site visit physical inspection in 2023, the location was a commercial resort or empty lots without any other eligible structure. Pursuant to DA-16-1363, carriers must not report locations of businesses expected to purchase dedicated high-capacity transmission or empty parcels of land in the HUBB; thus, the Beneficiary failed to update the locations in the HUBB to ensure the information is complete and accurate.[12] Because the locations did not have an eligible structure as required by FCC Rules, AAD concludes that the Beneficiary included locations that did not meet the qualifying location reporting in its certification to satisfy the public interest obligation for RBE support.

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[9] 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.

[10] *Rural Broadband Experiment Support Authorized for Winning Bids, et al.,* DA 15-1306 .

[11] *Guidance on Location Reporting,* 31 FCC Rcd at 12905, para. 21 (Do's and Don'ts)..

[12] *Id.* at 12910, para. 43 ("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.").

CAUSE

The Beneficiary submitted locations to the HUBB as of a certain period but failed to ensure that the HUBB data is complete and accurate.

EFFECT

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

State-SAC	No of Failures	Failure Rate[14] (A)	No Units Reported and Certified in the HUBB as of 3/1/2022 (B)	Obligation Requirement (C)	Extrapolation of Units with Errors (D)= (A)*(B)	Units in Excess /(Shortfall) of Obligation (E) = (B)-(C)-(D)
MN - 366132	3	3.65%	1,068	982	39	47
MN - 366133	6	10.53%	857	857	90	(90)

Given that the Beneficiary was required to deploy to 857 locations for SAC 366133, and the extrapolated calculation resulted in 90 failures, there is a shortfall of 90 required locations. AAD calculated the total monetary effect for this finding is $399 per month for the first six months of noncompliance ($7,975 monthly disbursement times five percent). If the Beneficiary does not cure its non-compliance within six months, the monetary impact for the next six months (up until the end of the support term) that the entity is not in compliance shall be $1,994 per month ($7,975 monthly disbursement times 25 percent of the entity's total monthly support).[15]

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

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

[15] The Commission has stated that, once an RBE support recipient no longer maintains a letter of credit and where USAC has verified compliance with the 100% milestone thus relieving the recipient of this obligation, the Commission will begin withholding support as described in the *RBE Order* if the Commission finds that the RBE support recipient is not providing the requisite level of service to all funded locations. *See Connect America Fund, ETC Annual Reports and Certifications*, Report and Order, 31 FCC Rcd 2384, 2388, para. 12 (2016) (*RBE Waiver Order*); *Connect America Fund, ETC Annual Reports and Certifications,* WC Docket No. 10-90, 14-58, Report and Order & Notice of Proposed Rulemaking, 29 FCC Rcd 8769, 8799, para. 92 (2014) (*RBE Order*) (adopting a one-year period of time, after the Bureau's determination of noncompliance, during which time an RBE support recipient has an opportunity to cure its noncompliance without a draw on its letter of credit but also during which time support payments will be progressively withheld by 5% for the first six months of noncompliance and by 25% for the next six months of noncompliance until such time as compliance is demonstrated); *see also Connect America Fund et al*., Report and Order, 29 FCC Rcd 15644, 15694, n.314 (2014) (explaining that the noncompliance framework applicable to RBE support recipients as adopted in the *RBE Order* is wholly separate from the noncompliance framework set forth in section 54.302 of the Commission's rules).

RECOMMENDATION

Based on the deployment obligation shortfall of 90 locations noted in the Effect section above, the Beneficiary failed to meet the terms and conditions of the Rural Broadband Experiment. Therefore, AAD recommends that the FCC issue a letter evidencing the default by which USAC Management will begin withholding support consistent with the terms of the *RBE Order* until the Beneficiary comes into compliance.[16] AAD recommends that the Beneficiary determine whether it will exercise its opportunity to cure this deficiency and address the deployment obligation shortfall of 90 locations. If the Beneficiary has not come into compliance at the end of the year period, AAD recommend that USAC management work with the FCC to determine additional corrective action.

BENEFICIARY RESPONSE

> The Beneficiary request [sic] clarification of the application of the deployment obligation shortfall for both the interium [sic] payments withheld and the cure of the final deficiency. This is the second milestone verification that the Beneficiary has gone through, the first milestone verification had 207 sample location [sic] with only 1 location failure in HCV-CF2-2019-23. Due to the small sample size of the second audit the application of the ratio resulted in highly overstated shortfall. This coupled with the information that SAC 366132 was considerably over the milestone, the joined RBE awards continue to exceed the RBE obliation [sic] of the Beneficiary.
>
> Additionally, the Beneficiary has built to 100% of the eligible locations within the two study area codes and without additional development within the area the company would be unable cure the shortfall identified by the application of the location ratio. As noted above taking into consideration the two vertification [sic] reviews the failure rate is less than 1%.
>
> Per the FCC Order FCC 14-98A1 the Beneficiary requests guidance and reconsideration on how the application will be determined.
> 92. Support Reductions and Recovery of Support. If a recipient begins receiving support, and the Bureau subsequently determines that it fails to meet the terms and conditions of its experiment, the Bureau will issue a letter evidencing the default, and USAC will begin withholding support. For the first six months that the entity is not in compliance, USAC will withhold five percent of the entity's total monthly support. For the next six months that the entity is not in compliance, USAC will withhold 25 percent of the entity's total monthly support. If at any point during the year that the support is being withheld the winning bidder comes into compliance, the Bureau will issue a letter to that effect; the entity then will be entitled to have its full support restored and will be able to recover all the support that USAC withheld.
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> With the RBE program being the first of its kind, this program does not have a de minimis level of location count due to the initial inaccuracies of the eligible location information. The

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[16] *RBE Order*, 29 FCC Rcd at 8799, para. 92.

Beneficiary has demonstrated that they have fulfilled meeting the intent of the program to provide broadband to 100% of the awarded area.

AAD RESPONSE

In its response, the Beneficiary disputes the effect calculated for this finding, arguing that the sample size was too small and suggesting that the results should be netted, as the results for one of the two SACs exceeded the RBE obligation. The Beneficiary asserts that it has built to 100 percent of the eligible locations within the two SACs, and without additional development in the area, it is unable to cure the shortfall identified. The Beneficiary indicates that the RBE program does not have a de minimis level of location count and asserts the Beneficiary's intent of the program to provide broadband to 100 percent of the awarded area. As such, the Beneficiary requests guidance and reconsideration of the application of the RBE Order, para. 92.

As explained in the Procedures section, AAD worked with an independent statistician to select a statistically valid sample of locations based on the number of locations/units certified on the HUBB and followed a statistical sample methodology approved by the FCC. AAD's sample is independent of previous verification reviews performed by the HC Program. AAD clarified that the HC verification review sample was designed to ensure unbiased results, using a two-sided 95 percent confidence interval with a margin of error of plus or minus 5 percent and an expected error rate of 50 percent, as it had not been previously reviewed or tested. However, as noted by the Beneficiary in its response, AAD established the margin of error rate to be 5 percent according to its sampling plan. Thus, AAD's statistically valid sample was designed to ensure unbiased results using a two-sided 95 percent confidence interval with a margin of error of plus or minus 5 percent and an expected error rate of 5 percent. The derivation of the sufficient sample size necessary to meet the consistency (precision) results depends on the total population (here, between 800 and 1,100) and on what the error rate is expected to be before the sampling takes place (the applied error rate). The failure rate is a statistical calculation of the errors in the sample and is applied to the total population for expected errors. For SAC 366133, AAD concluded that the Beneficiary did not deploy broadband to three locations with an eligible structure, resulting in a shortfall from meeting the required number of locations. Given that 857 units were certified in the HUBB system for SAC 366133, the three locations identified as exceptions were extrapolated to the population, resulting in 90 locations in error (the extrapolation was performed through procedures approved by the FCC and industry standards).

Pursuant to FCC Public Notice DA-15-1306, the Beneficiary was authorized, on a SAC by SAC basis, to receive RBE support in exchange for a commitment to deploy service to a defined number of locations;[17] therefore, the number of deployed units in excess of the required number of locations for SAC 366132 (47 units) cannot be used to reduce the shortfall in the number of deployed units identified for SAC 366133 (90 units).

In the absence of an approved FCC waiver, AAD cannot modify the required number of locations to which the Beneficiary must deploy the requisite service to reach the conclusion that the Beneficiary has met its deployment obligations regardless of circumstances, including any discrepancy between the number of locations that can be served and the number of locations that the Beneficiary must serve. Thus, given the failures identified in the Condition section above, and the related effect calculation that shows a shortfall for

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[17] *Rural Broadband Experiment Support Authorized for Winning Bids Submitted by …Paul Bunyan Rural Telephone Cooperative*, DA-15-1306 (2015).

SAC 366133 in the Effect section above, AAD's recommendation is in accordance with the RBE Order para. 92, Support Reductions and Recovery of Support.[18]

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

CONDITION

AAD selected a statistically valid sample of 124 units (123 locations)[19] that the Beneficiary reported and certified in the HUBB portal for the RBE support at the 100 percent milestone and performed physical inspections to determine whether the locations were eligible for RBE support, the related geocodes were reported and certified accurately in the HUBB portal, and the locations met the public interest obligations for offering broadband service (at least 100 Mbps downstream/25 Mbps upstream) with latency suitable for real-time applications (less than 100 milliseconds). Per FCC Rules, carriers have an obligation to, in good faith and to the best of their knowledge, file complete and accurate information in the HUBB.[20] The Beneficiary reported inaccurate address locations for the units in its HUBB data submission for RBE support, as detailed in the table below.[21]

SAC	Inaccurate Address
366133	1

CAUSE

The Beneficiary acknowledged that coordinates were inaccurately reported and attempted to revise them during the audit, but it could not be completed due to the HUBB being locked in March 2022.

[18] *RBE Order*, FCC Rcd at 8799, para. 92 (If a recipient begins receiving support, and the Bureau subsequently determines that it fails to meet the terms and conditions of its experiment, the Bureau will issue a letter evidencing the default, and USAC will begin withholding support. For the first six months that the entity is not in compliance, USAC will withhold five percent of the entity's total monthly support. For the next six months that the entity is not in compliance, USAC will withhold 25 percent of the entity's total monthly support. If at any point during the year that the support is being withheld the winning bidder comes into compliance, the Bureau will issue a letter to that effect; the entity then will be entitled to have its full support restored and will be able to recover all the support that USAC withheld.).
[19] 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.
[20] *Guidance on Location Reporting,* 31 FCC Rcd at 12910, para. 43 (Duty to File Complete, Accurate and Timely Data). *See also*, FCC Form 481 Officer Certification.
[21] *Guidance on Location Reporting,* 31 FCC Rcd at 12910, para. 43 (Duty to File Complete, Accurate and Timely Data).

EFFECT

AAD identified an FCC rule violation as the locations' information reported in the HUBB and certified by the Beneficiary was inaccurate or contained errors. However, 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 the Beneficiary correct and recertify the locations related to the failures in the HUBB.

BENEFICIARY RESPONSE

The Beneficiary will correct related failures when the HUBB system window is open for updates to be made.

CRITERIA

Finding	Criteria	Description
#1	*Connect America Fund, ETC Annual Reports and Certifications*, WC Docket No. 10-90, 14-58, Report and Order & Notice of Proposed Rulemaking, FCC 14-98, 29 FCC Rcd 8769, para. 74 (2014) (*RBE Order)*.	*Build-Out Requirements for all Recipients.* As we discuss above, all recipients of rural broadband support will receive support in 120 equal monthly disbursements over a 10-year support term, consistent with the support term we have adopted for the Phase II competitive bidding process. The support term will begin with the first disbursement of support after the entities have been notified that they are the winning bidders and that they have met the requirements outlined above. During this support term, the recipients will be required to meet interim build-out requirements consistent with the build-out requirements we have adopted generally for recipients of Connect America Phase II funding. By the end of the third year, the recipients must offer service meeting the public service obligations we adopted for the relevant experiment category to at least 85 percent of the number of required locations and submit the required certifications and evidence. By the end of the fifth year, the recipients must offer service meeting the public service obligations we adopted for the relevant experiment category to 100 percent of the number of required locations and submit the required certifications and evidence. Recipients must comply with the terms and conditions of rural broadband experiment support for the full 10-year support term.
#1	*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-	**DO NOT report:** • The location of the network's pedestal, box, or node • Empty parcels of land • Houses or buildings under construction • Group quarters, such as dormitories, nursing homes, residential treatment centers, military installations, or correctional facilities – as residential locations • Community anchor institutions (regardless of the size). Community anchor institutions include such entities as schools, libraries, hospitals and other medical providers,

Finding	Criteria	Description
	1363, 31 FCC Rcd 12900, 12905, para. 21 (2016) (*Guidance on Location Reporting*).	public safety entities, institutions of higher education, and community support organizations that facilitate greater use of broadband by vulnerable populations, including low-income, the unemployed, and the aged. • Wireless infrastructure sites, such as cell towers • 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
#1	*Connect America Fund, ETC Annual Reports and Certifications*, WC Docket No. 10-90, 14-58, Report and Order & Notice of Proposed Rulemaking, FCC 14-98, 29 FCC Rcd 8769, 8799, para. 92 (2014) (*RBE Order*).	*Support Reductions and Recovery of Support.* If a recipient begins receiving support, and the Bureau subsequently determines that it fails to meet the terms and conditions of its experiment, the Bureau will issue a letter evidencing the default, and USAC will begin withholding support. For the first six months that the entity is not in compliance, USAC will withhold five percent of the entity's total monthly support. For the next six months that the entity is not in compliance, USAC will withhold 25 percent of the entity's total monthly support. If at any point during the year that the support is being withheld the winning bidder comes into compliance, the Bureau will issue a letter to that effect; the entity then will be entitled to have its full support restored and will be able to recover all the support that USAC withheld.
#2	*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, 12910, para. 43 (2016) (*Guidance on Location Reporting).*	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 will not, however, be subject to non-compliance measures based on the information they have filed or omitted for a particular reporting period until the reporting period deadline has passed.
#2	FCC Form 481 Officer Certification	"I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate."

ATTACHMENT I: SPECIALIST REPORT - ELITE SYSTEMS

ELITE SYSTEMS

ENGINEERING STUDY REPORT

RBE HIGH-COST PROGRAM

PAUL BUNYAN

State of Minnesota – SAC 366132 & 366133

Audit ID HC2021MO039

Report Release: September 14th, 2023
Final Version: August 22nd, 2025

www.elitesystems.com
4000 Legato Road * Fairfax VA 22033* 703-279-1790

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LIST OF FIGURES

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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 Paul Bunyan, verifying compliance with the broadband service deployment obligations by Rural Broadband Experiments (RBE) carriers. This audit was conducted in Minnesota within Service Area Codes (SAC) 366132 and 366133, encompassing 123 (124 units), and the audit period extended from February 27th, 2023, to March 15th, 2023. The engagement was executed under contract AAD20_108, as part of the High-Cost Broadband Network and Engineering Audit Services program.

SAC		# of Locations	# of Units
366132	Minnesota	60	60
366133	Minnesota	63	66
Total		**123**	**124**

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

Service Offering:
- Download speed: 25 Mbps
- Upload speed: 5 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 123 locations (124 units) in these SACs and discovered three (3) locations not meeting the minimum KPIs. A unit is used to refer to an apartment in a multi-dwelling facility, where there could be multiple potential customers at one site. The field visits also discovered six (6) additional locations where there was either no structure or a structure that was not compliant with RBE requirements, DA 16-1363. See Table 2.

Exception[1]	# of Locations	# of Units
KPI Failure	3	3
Ineligible Location – Building Type	6	6
Commercial	1	1
Empty Parcel	5	5

Table 2: Summary of Exceptions

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

Exception	# of Locations	# of Units
HUBB Failure	1	1
Failure to validate address	1	1

Table 3: Incorrect HUBB Data Submission

[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.

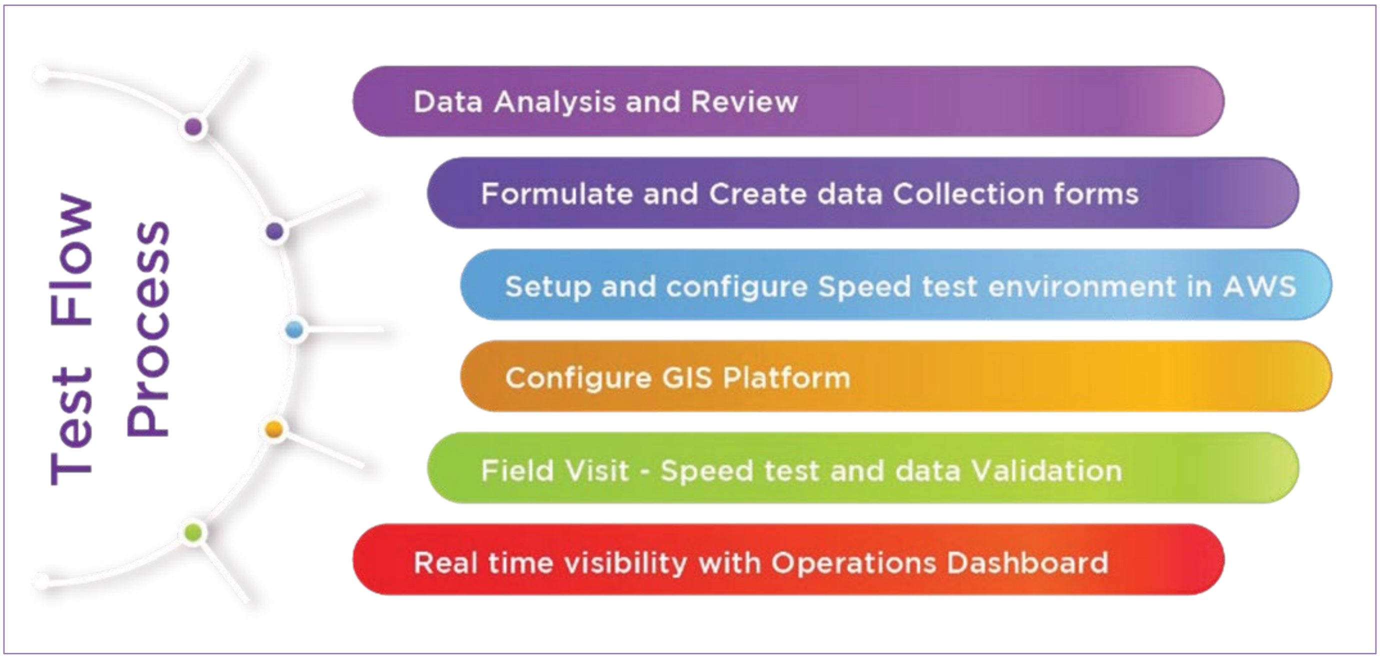

Figure 1: Engineering Testing Process

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 Paul Bunyan 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 Paul Bunyan technician provided the correct address using the Paul Bunyan 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.)*

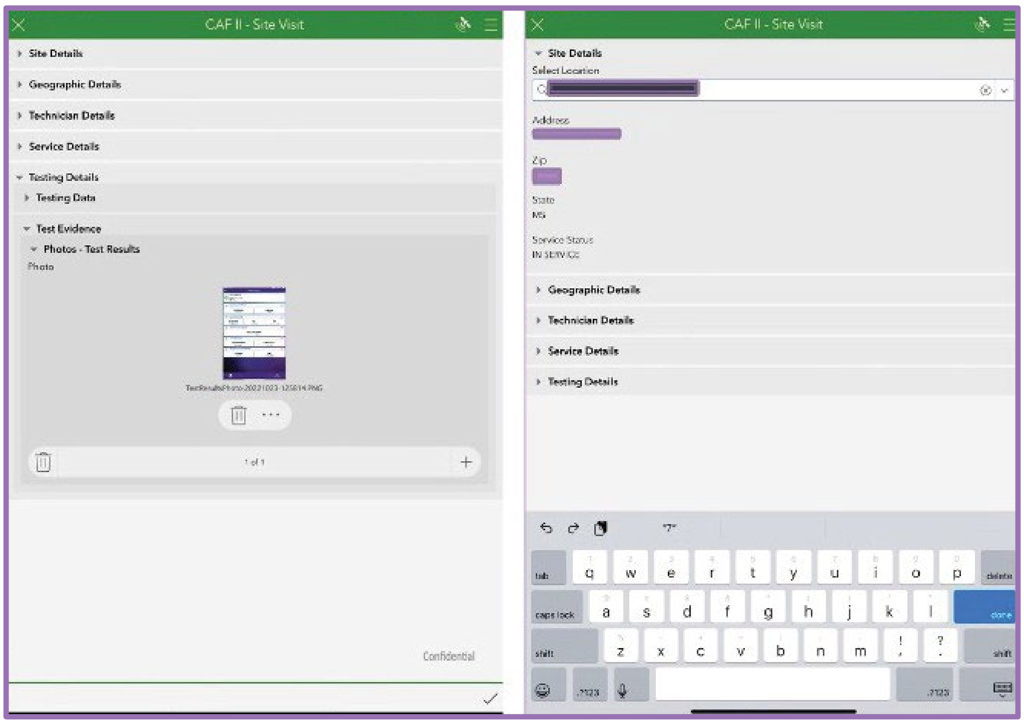
This report is accompanied by 63 individual reports for each location audited. These reports are saved to the USAC SharePoint server and include the following details:

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

3. EQUIPMENT, SOFTWARE, AND ANALYTICAL METHODOLOGY

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

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



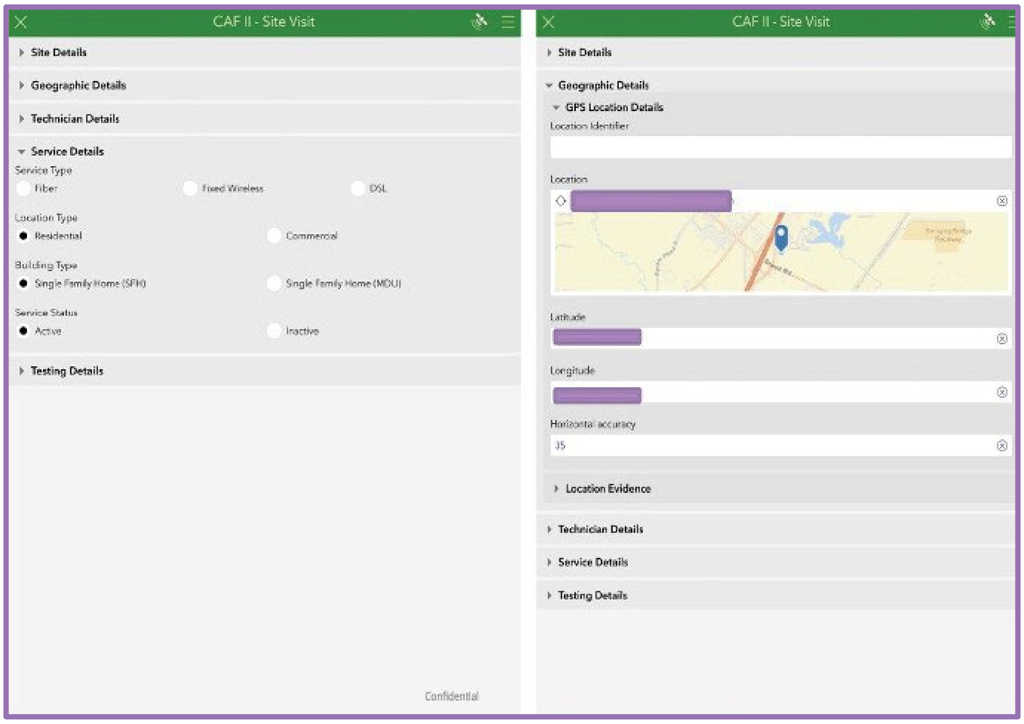


Figure 5: Field Survey Data Collection 2

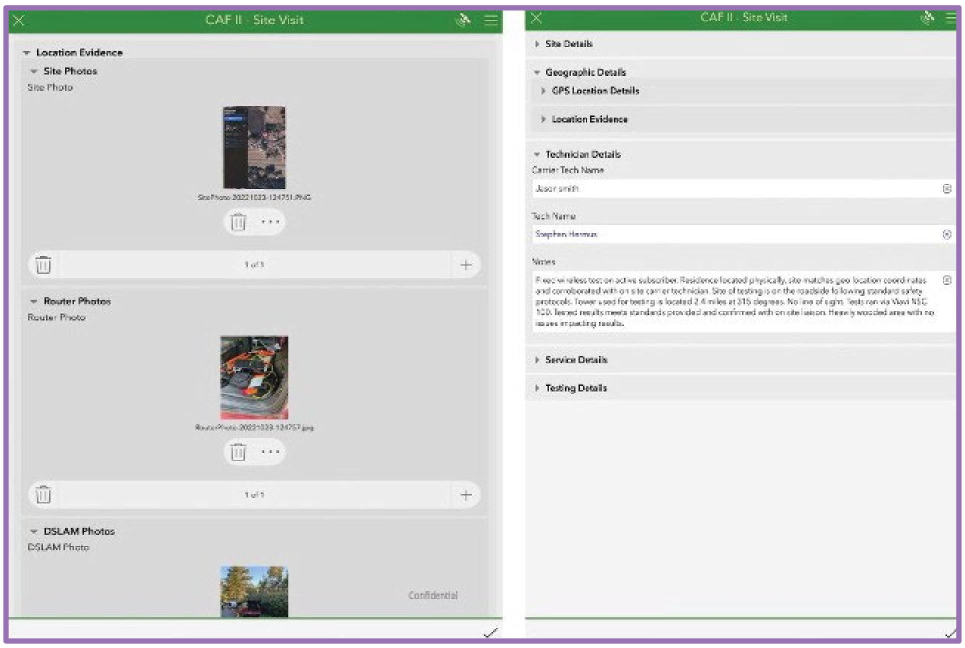


Figure 6: Field Survey Data Collection 3

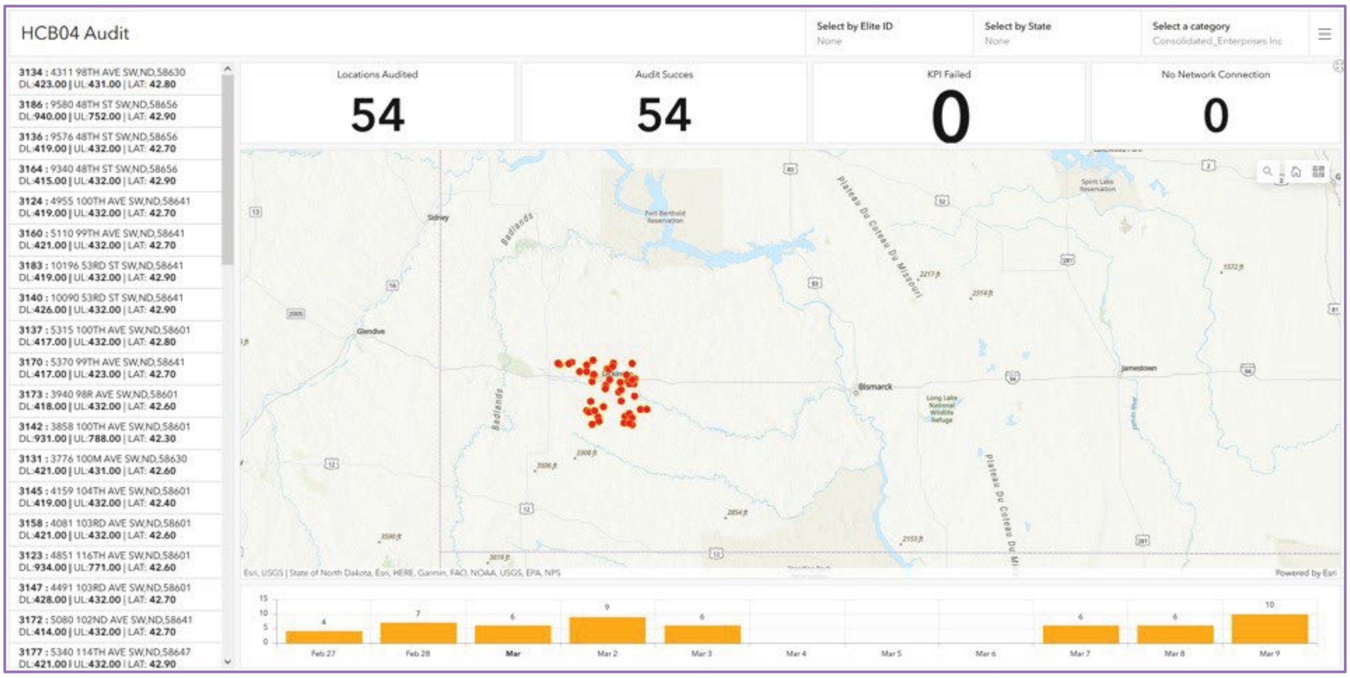


Figure 7: Dashboard Sample

III. CONCLUSION:

1. DOCUMENTATION REVIEW FINDINGS

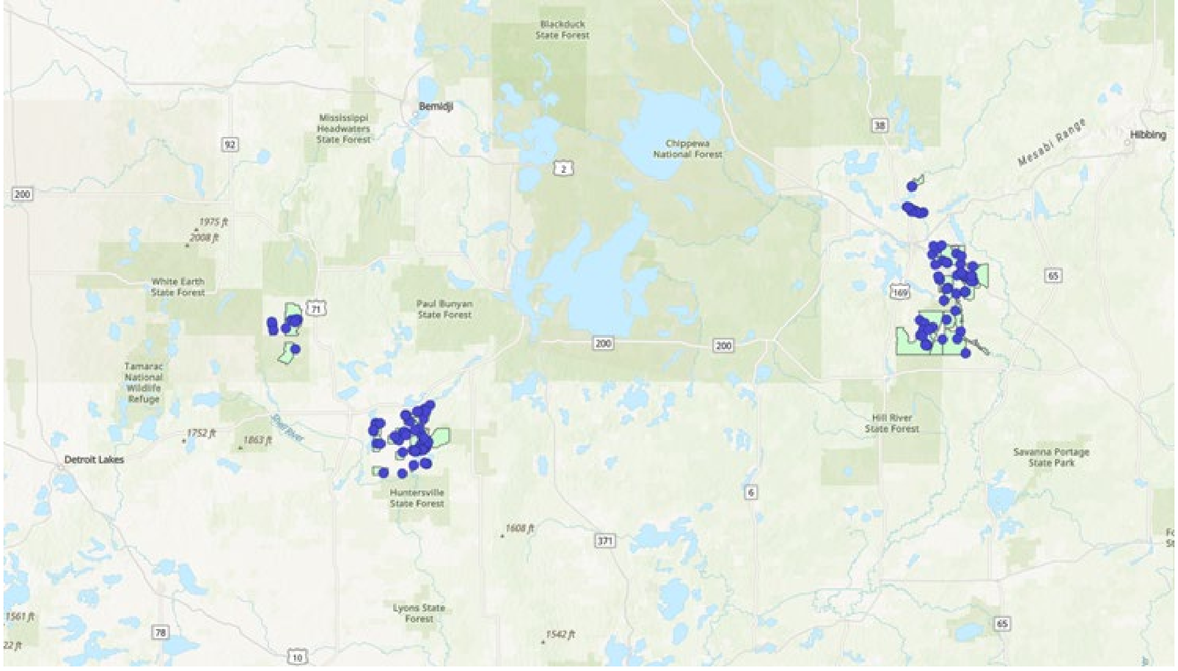
The documentation provided by Paul Bunyan met the minimum program requirements for location audit preparation. All necessary details, including postal addresses, geolocations, technology types, and active customer information, were verified to ensure proper eligibility for the RBE program.

Paul Bunyan received $1,520,550.00 out of the $1,962,000 allocated by the FCC to SACs 366132 and 366133.

SAC	FCC Allocated	Amount Disbursed
366132	$1,005,000.00	$778,875.00
366133	$957,000.00	$741,675.002

Table 4: Disbursement by SAC

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



A. KPI TEST FINDINGS

Elite Systems tested 123 locations (124 units) in these SACs and discovered all locations met the minimum required KPIs, except for 3 locations within SAC 366133. The tested locations were all serviced with fiber.

B. BUILDING TYPE FINDINGS

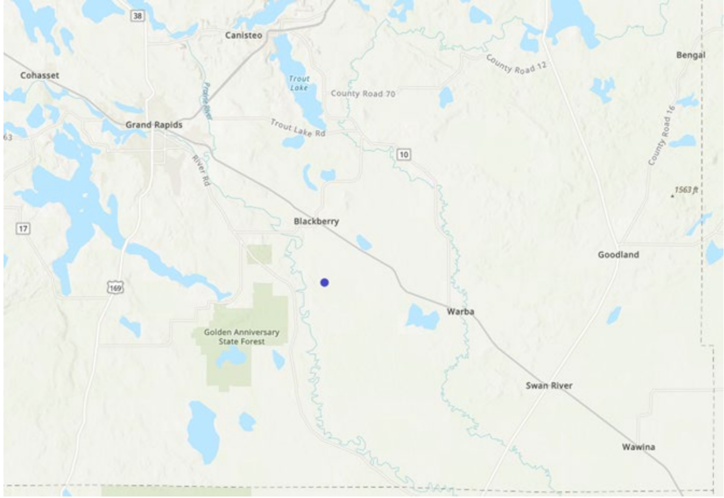
To qualify for RBE eligibility, the location and unit must be in an inhabitable condition. Trailers, large businesses, some community centers (including places of worship), and empty lots are not eligible. Table 5 lists locations and units that are found to be ineligible and are reported as exceptions.

SAC		# of Locations	# of Units
SAC 366132	Minnesota	3	3
Commercial		1	1
Empty Parcel		2	2
SAC 366133	Minnesota	3	3
Empty Parcel		3	3

Table 5: Exceptions per building type

C. ADDRESS AND GEOLOCATION FINDINGS

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



APPENDIX A: ADDITIONAL ANALYSIS

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

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

Audit location Service Status	Audited Subscribers Status	Average of Total Monthly charges
Active	36	$121.95
Inactive	24	-

Table 6: SAC 366132- Minnesota

Audit location Service Status	Audited Subscribers Status	Average of Total Monthly charges
Active	37	$134.62
Inactive	26	-

Table 7: SAC 366133- Minnesota

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

Serving Technology	Capacity Allowance (GB/Mo)
Fiber	Unlimited

Table 8: Data Allowance

Attachment B

HC2024LR022

Universal Service Administrative Co.

Available For Public Use

Tenino Telephone Company

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

USAC Audit No. HC2024LR022

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EXECUTIVE SUMMARY

September 16, 2025

Rick Vitzthum
Chief Financial Officer (CFO)
Tenino Telephone Company
225 Central Avenue
Tenino, WA 98589

Dear Mr. Vitzthum:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Tenino Telephone Company (Beneficiary), study area code 522446 disbursements for the year ended December 31, 2023, using the regulations set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, and orders and other program requirements governing the federal Universal Service High Cost Support Mechanism (collectively, the FCC Rules). Compliance with the 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 non-compliance with FCC Rules that were in effect during the audit period.

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

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

Sincerely,

Jeanette Santana-Gonzalez
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 Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2021	2023	$1,020,444
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2020-2022	2023	$323,922
High Cost Loop (HCL)	2021	2023	$266,529
Total			**$1,610,895**

BACKGROUND
The Beneficiary is a cost-based eligible telecommunications carrier (ETC) operating in Washington. The Beneficiary is an affiliate of Scatter Creek Ltd., Kalama Telephone Company, and Scatter Creek Infonet.

PROCEDURES
AAD performed the following procedures:

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

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

C. Line Count Records
AAD obtained and examined the Beneficiary's line count and billing records. AAD used computer- assisted auditing techniques to analyze the data files and to determine whether the number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings, and the lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

AAD obtained and examined the Beneficiary's continuing property records (CPRs) and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances as well as cable and wire facility equipment balances. AAD also examined documentation for 21 asset transactions and conducted a virtual inventory for 9 asset transactions to determine whether the Beneficiary categorized fixed assets to the proper accounts.

E. Operating Expenses

AAD obtained and examined tax reports, accrual schedules, and related documentation to determine whether the Beneficiary reported accurate tax expenses and deferred tax liabilities. AAD obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. AAD obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. AAD obtained and examined general ledger details for 24 expense transactions and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

F. Revenues

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

This concludes the report.

Attachment C

HC2024LR006

Penasco Valley Telephone Cooperative, Inc.

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

USAC Audit No. HC2024LR006

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Universal Service Administrative Co.

EXECUTIVE SUMMARY

May 15, 2025

Debbie Garcia
Controller
Penasco Valley Telephone Cooperative, Inc.
4011 W. Main Street
Artesia, NM 88210

Dear Debbie Garcia:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Penasco Valley Telephone Cooperative, Inc. (Beneficiary), study area code 492270 disbursements for the year ended December 31, 2022, 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, as well as other program requirements (collectively, 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 FCC Rules based on our limited review performance audit.

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

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

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

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

Sincerely,

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

cc: 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	Monetary Effect HCL	CAF BLS	CAF ICC	Total	Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.320(b) (2020) – Lack of/Inadequate Documentation: Affiliate Transactions The Beneficiary did not provide documentation or did not provide adequate documentation to substantiate the value, classification, and accuracy for seven affiliated entities transaction samples.	$37,911	$13,679	$0	$51,590	$51,590
Finding #2: 47 C.F.R. § 32.2000(g)(2)(iii) (2020) - Inaccurate Depreciation Calculation The Beneficiary did not calculate its depreciation expense using the average monthly balance for one month.	$10,086	$3,548	$0	$13,634	$13,634
Finding #3: 47 C.F.R. §§ 36.152(a)(1-2) and 36.126(c) (2020) – Improper Allocation Factor: Wideband Loops The Beneficiary used an inaccurate factor using the incorrect wideband loops count that caused the calculation used to allocate power and common equipment among central office equipment (COE) accounts and the calculation used to spread joint use COE and cable and wire facilities (C&WF) to be incorrect.	($15,955)	($4,967)	$0	($20,922)	$0
Finding #4: 47 C.F.R. §§ 32.2(a)(b) (2020) – Misclassified Assets and Expense The Beneficiary improperly reported inventory as COE assets, and land and building expense as buried cable expense for one expense sample.	($42,895)	($26,380)	$0	($69,275)	$0
Total	**($10,853)**	**($14,120)**	**$0**	**($24,973)**	**$65,224**

[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 for SAC 492270, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	CAF BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$37,911	$13,679	$0	$51,590	N/A
Finding #2	$10,086	$3,548	$0	$13,634	N/A
Finding #3	($15,955)	($4,967)	$0	($20,922)	N/A
Finding #4	($42,895)	($26,380)	$0	($69,275)	N/A
Mechanism Total	($10,853)	($14,120)	$0	($24,973)	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.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2020	2022	$3,379,053
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2019 - 2021	2022	$352,428
High Cost Loop (HCL)	2020	2022	$3,644,118
Total			**$7,375,599**

[2] *Id.*

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in New Mexico. PVT NetWorks, Inc. is a wholly-owned subsidiary of the Beneficiary. PVT Wireless Limited Partnership is owned by the Beneficiary and PVT NetWorks, Inc. The Beneficiary is also an affiliate of PVT Security LLC.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Line Count Records

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

D. Fixed Assets

AAD obtained and examined the Beneficiary's continuing property records (CPRs) and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances as well as cable and wire facility equipment balances. AAD also examined documentation and conducted a physical inventory to determine whether the Beneficiary categorized fixed assets to the proper accounts. AAD selected a non-statistical sample of 4 COE asset transactions and 26 C&WF asset transactions for testing.

E. Operating Expenses

AAD obtained and examined tax reports, accrual schedules, and related documentation to determine whether the Beneficiary reported accurate tax expenses and deferred tax liabilities. AAD obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. AAD obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. AAD obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses. AAD selected a non statistical sample of 14 expense transactions and 10 affiliated entity transactions for testing.

F. Revenues

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

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 54.320(b) (2020) – Lack of/Inadequate Documentation: Affiliated Entities Transactions

CONDITION

AAD obtained and examined supporting documentation for a nonstatistical sample of 10 affiliated entities'/ transactions to determine whether the Beneficiary reported accurate amounts for High Cost Program purposes. AAD determined that the Beneficiary did not provide documentation for four samples, and provided inadequate documentation for three affiliated entities' transactions out of the total 10 sampled transactions. Specifically, the Beneficiary did not provide any documentation (e.g., supplemental schedule, invoice, board minutes, or other documentation, etc.) for four of the seven affiliated entities transaction samples. These four transactions related to the regulated entity paying the non-regulated entity for voicemail expense, host office expense, general purpose computer expense, and leased vehicles and equipment. The remaining three of the seven affiliated entities transaction samples, the Beneficiary provided the journal entry for these transactions, but did not provide the underlying documentation to support the entire amount of the transaction selected (e.g., supplemental schedule, invoice, board minutes, or other documentation, etc.). These three transactions related to the regulated entity paying the non-regulated entity for long distance, cable modem and internet services. These transactions were recurring throughout the year (i.e., monthly) and affected more than one account, as summarized below.

Account[3]	Account Description	Annual Amount Not Supported
2003	Telecommunications Plant Under Construction	$59,147
6112	Motor Vehicle Expense	$13,247
6121	Land and Building Expense	$18,955
6124	General Purpose Computers Expense	$43,673
6212	Digital Electronic Switching Expense	$29,955
6232	Circuit Equipment Expense	$12,452
6362	Other Terminal Equipment Expense	$4,421
6423	Buried Cable Expense	$123,236
6512	Provisioning Expense	$2,101

[3] *See* 47 C.F.R. §§32.2003; 32.6112; 32.6121; 32.6124; 32.6212; 32.6232; 32.6362; 32.6423; 32.6512; 32.6532; 32.6533; 32.6534; 32.6535; 32.6612; 32.6613; 32.6623; 32.6720 (2020).

Account[3]	Account Description	Annual Amount Not Supported
6532	Network Administration Expense	$1,740
6533	Testing Expense	$4,112
6534	Plant Operation Administration Expense	$1,125
6535	Engineering Expense	$5,858
6612	Marketing	$176
6613	Product Advertising	2,975
6623	Customer Services	$5,958
6720	General Administrative Expense	$33,142
	Total	**$362,273**

Because the Beneficiary did not provide documentation or provided documentation that was not sufficient to support seven affiliate transactions sampled, AAD concludes that these transactions are not reported accurately for High Cost filing purposes.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to report the correct amount for High Cost program purposes. The Beneficiary stated that "2020 was an unusual and disrupted year for administrative business operations due to the Covid virus and work-from-home requirements. Normal business processes were interrupted as employees were required to transition from full-time, in-person, paper intensive processes to virtual, electronic processes. It is highly likely that the required back-up documentation did exist at the time of initial accounting but was lost, misplaced or misfiled during Covid business interruptions."[4]

EFFECT

AAD calculated the monetary effect of this finding by subtracting the value of the unsupported amounts reported by the Beneficiary in its respective account in its High Cost filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$114,529
CAF BLS	$40,928
Total	**$155,457**

RECOMMENDATION

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

The Beneficiary must implement policies, controls and procedures to create and maintain supporting documentation that demonstrates compliance with the FCC Rules by substantiating the amounts reported for High Cost Program purposes. The Beneficiary must develop and implement policies, procedures and

[4] *See* Beneficiary response to the audit results summary, received Aug. 5, 2025.

processes to ensure it has an adequate system in place for preparing, reviewing, and approving data reported to ensure compliance with applicable FCC Rules, including its calculation of expenses and affiliate transactions. More information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Beneficiary has subsequently gathered documentation supporting the amounts recorded for finding #1 sample #4 regarding vehicle and equipment expenses as leased from an affiliated company. Please see document titled PVT Summary of Sample Documentation Follow-up for more information. We believe this documentation is sufficient to remove $225,299.05 of the $362,274.85 total annualized amount removed from consideration.

AAD RESPONSE

Based on the Beneficiary's response and supplemental documentation provided, AAD examined the additional supporting documentation pertaining to Sample #4 regarding vehicle and equipment expenses leased from an affiliated company. There were 20 underlying affiliated vehicles and equipment lease amounts that made up this one affiliate transaction for Sample #4. AAD selected a sample of 11 underlying vehicles and equipment from the affiliate, and requested source documentation for original costs, to determine whether the Beneficiary reported accurate amounts for High Cost Program purposes.

AAD determined that the Beneficiary provided adequate documentation for these 11 sub-samples. The Sample #4 affiliate transaction was recurring throughout the year (i.e., monthly) and affected more than one account. AAD updates the original chart per the Condition, as summarized below.

Account[5]	Account Description	Annual Amount Not Supported
2003	Telecommunications Plant Under Construction	$431
6112	Motor Vehicle Expense	$0
6121	Land and Building Expense	$4,033
6124	General Purpose Computers Expense	$43,673
6212	Digital Electronic Switching Expense	$15,987
6232	Circuit Equipment Expense	$2,155
6362	Other Terminal Equipment Expense	$765
6423	Buried Cable Expense	$12,744
6512	Provisioning Expense	$2,101
6532	Network Administration Expense	$1,740
6533	Testing Expense	$4,112
6534	Plant Operation Administration Expense	$1,125

[5] *See* 47 C.F.R. §§32.2003; 32.6112; 32.6121; 32.6124; 32.6212; 32.6232; 32.6362; 32.6423; 32.6512; 32.6532; 32.6533; 32.6534; 32.6535; 32.6612; 32.6613; 32.6623; 32.6720 (2020).

6535	Engineering Expense	$5,858
6612	Marketing	$176
6613	Product Advertising	2,975
6623	Customer Services	$5,958
6720	General Administrative Expense	$33,142
Total		**$136,975**

Because the Beneficiary provided additional documentation to support the Sample #4 affiliate transaction sampled, AAD updates its monetary effect and recommended recovery as summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$37,911
CAF BLS	$13,679
Total	**$51,590**

FINDING #2: 47 C.F.R. § 32.2000(g)(2)(iii) (2020) – Inaccurate Depreciation Calculation

CONDITION

AAD obtained and examined the Beneficiary's depreciation schedule to determine whether the Beneficiary's depreciation and accumulated depreciation amounts as of December 31, 2020 were correctly calculated for High Cost Program purposes. Upon review of the documentation, AAD determined that the Beneficiary did not calculate its depreciation expense using the average monthly balance for the month of December. AAD recalculated the carrier's depreciation expense by taking the average of the beginning and ending balance of the month of December and determined that the Beneficiary over reported its depreciation expense and accumulated depreciation amounts as listed below.

Account[6]	Account Description	Variance Over/(Under) Reported
3100-2230	Accumulated Depreciation: Central Office - Transmission	($1,995)
3100-2410	Accumulated Depreciation: Cable and Wire Facilities	$23,170
6560-2230	Depreciation Expense: Central Office - Transmission	($1,995)
6560-2410	Depreciation Expense: Cable and Wire Facilities	$23,170

Because the Beneficiary miscalculated its depreciation expense and accumulated depreciation amounts, AAD concludes that its depreciation and accumulated depreciated balances were inaccurate.

[6] *See* 47 C.F.R. §§32.3100; 32.6560; 32.2230; 32.2410 (2020).

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary stated that the ending balances of the asset account were included in a one-off error.[7]

EFFECT

AAD calculated the monetary effect of this finding by subtracting the value of the overreported amounts reported from and adding the value of the underreported amounts to the total amounts reported by the Beneficiary in its respective accounts in its High Cost filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$10,086
CAF BLS	$3,548
Total	**$13,634**

RECOMMENDATION

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

The Beneficiary must implement an adequate system to properly report the correct amounts for High Cost Program purposes. The Beneficiary must develop and implement policies, control, procedures and processes to ensure it has an adequate system in place for preparing, reviewing, and approving data reported to ensure compliance with applicable FCC Rules, including its calculation of depreciation and accumulated depreciation. More information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Beneficiary agrees with the audit finding.

FINDING #3: 47 C.F.R. §§ 36.152(a)(1-2) and 36.126(c) (2020) – Inaccurate Allocation Factor: Wideband Loops

CONDITION

AAD obtained and examined supporting documentation (i.e., cost study and loop count documentation) to determine (1) whether the Beneficiary's power and common (P&C) equipment allocations were correctly calculated[8] and (2) whether the Beneficiary properly recorded its cost study balances for High Cost program

[7] *See* Beneficiary response to the audit results summary, received Nov. 7, 2024.
[8] *See* 47 C.F.R. § 36.121(c) (2020).

purposes, including amounts reported for Cable and Wire Facilities (C&WF) Category 1 Exchange Line C&WF and Central Office Equipment (COE) Category 4.13 Exchange Line Circuit Equipment Excluding Wideband.[9] The Beneficiary based various allocation calculations for COE and C&WF on wideband loops included in the total loop count. The Beneficiary reported 94 wideband loops, but could only provide supporting documentation for 84 wideband loops.[10] AAD determined that the Beneficiary used an inaccurate factor that caused (1) the calculation used to allocate power and common equipment among COE accounts to be incorrect, and (2) the calculation used to spread joint use COE and CWF to be incorrect, which led to inaccurate COE and C&WF assignment balances for High Cost program purposes.

Because the Beneficiary overreported wideband loops, the Beneficiary miscalculated its allocation of joint use COE and C&WF. Under program rules, Beneficiaries use the allocation of joint use COE to determine the appropriate portion of COE that should be allocated to exchange line circuit equipment, Category 4.13,[11] and use the allocation of joint use C&WF to determine the appropriate portion of C&WF that should be allocated to exchange line C&WF, Category 1,[12] and reported for High Cost program purposes. Due to the error in the wideband loops, the Beneficiary over/underreported category assignments for both COE and C&WF, as summarized below.

Account[13]	**Category Description[14]**	**Original *[Based on 94 Wideband Loops]* A**	**AAD Recalculated *[Based on 84 Wideband Loops]* B**	**Variance Over/(Under) Reported A – B**
2230	Wideband Exchange Line Circuit Equipment – Category 4.11	$2,519,075	$2,503,032	$16,043
	Exchange Trunk Circuit Equipment (Wideband and Non-Wideband) – Category 4.12	$10,627	$10,627	$0
	Exchange Line Circuit Equipment Excluding Wideband – Category 4.13	$6,727,329	$6,743,372	($16,043)
	All Other Interexchange Circuit Equipment – Category 4.23	$46,008	$46,008	$0
2410	Exchange Line C&WF – Category 1	$58,213,098	$58,416,925	($203,827)
	Wideband and Exchange Trunk (C&WF) – Category 2	$2,293,381	$2,089,554	$203,827

The Beneficiary must accurately calculate its allocations of category assignments for both COE and C&WF for High Cost program purposes. Because the Beneficiary used an inaccurate wideband loop factor, AAD

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[9] *See* 47 C.F.R. §§ 36.152(a)(1); 36.126(b)(1)(iii) (2020).
[10] *See* 47 C.F.R. §§ 54.320(b) (2020).
[11] *See* 47 C.F.R. § 36.126(c) (2020).
[12] *See* 47 C.F.R. § 36.154 (2020).
[13] *See* 47 C.F.R. §§32.2230; 32.2410 (2020).
[14] *See* 47 C.F.R. §§36.126(b)(1); 36.126(b)(2)(iii); 36.154; 36.155 (2020).

concludes that the Beneficiary did not accurately report category balances for C&WF and COE for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report accurate information for High Cost program purposes. The Beneficiary stated that the wrong loop input was used when corrections were made to the file, and it was just overlooked.[15]

EFFECT

AAD calculated the monetary effect of this finding by subtracting the value of the overreported amounts reported from and adding the value of the underreported amounts to the total amounts reported by the Beneficiary in its respective accounts in its High Cost filings. AAD summarized the results below:

Support Type	Monetary Effect
HCL	($15,955)
CAF BLS	($4,967)
Total	**($20,922)**

RECOMMENDATION

The Beneficiary must implement policies, control and procedures to create and maintain supporting documentation that demonstrates compliance with the FCC Rules by substantiating the amounts reported for High Cost Program purposes. The Beneficiary must implement an adequate system to properly report the correct amounts for High Cost Program purposes. The Beneficiary must develop and implement policies, procedures and processes to ensure it has an adequate system in place for preparing, reviewing, and approving data reported to ensure compliance with applicable FCC Rules, including its calculation of power and common costs and asset category assignments. More information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Beneficiary agrees with the finding.

FINDING #4: 47 C.F.R. §§ 32.(a)(b) (2020) – Misclassified Assets and Expense

CONDITION

AAD obtained and examined the Beneficiary's Continuing Property Records (CPR), general ledger, and a non-statistical sample of 14 expense transactions and 30 asset transactions to determine whether the Beneficiary reported accurate amounts for High Cost program purposes. AAD determined (1) the Beneficiary improperly

[15] *See* Beneficiary response to the audit results summary, received Nov. 7, 2024.

reported inventory as COE assets, which caused an inaccurate reporting of its cost study balances and categorizations for COE, and (2) the Beneficiary improperly reported land and building expense as buried cable expense for one expense sample.

Assets

The Beneficiary's CPR amount did not agree to the Beneficiary's general ledger. AAD determined that the Beneficiary utilized the value reported in its general ledger for Central Office Switching Equipment and Central Office Transmission Equipment[16] (COE) for its High Cost program filings. In its general ledger, the Beneficiary included spare equipment that it should have reported as inventory.[17] AAD concludes the Beneficiary overstated its COE assets, which caused an inaccurate reporting of its cost study balances and categorizations for COE, as summarized below:

General Ledger A	COE CPR B	Overstatement A – B
$10,357,120	$9,405,390	$951,730

Account[18]	Category Description[19]	Original A	AAD Recalculated B	Variance Over/(Under) Reported A – B
2210	Local Switching Equipment – Category 3	$1,054,080	$859,416	$194,664
2230	Wideband Exchange Line Circuit Equipment – Category 4.11	$2,519,075	$2,313,751	$205,324
	Exchange Trunk Circuit Equipment (Wideband and Non-Wideband) – Category 4.12	$10,627	$9,106	$1,521
	Exchange Line Circuit Equipment Excluding Wideband – Category 4.13	$6,727,329	$6,183,694	$543,635
	All Other Interexchange Circuit Equipment – Category 4.23	$46,008	$39,423	$6,585
	Total	**$10,357,119**	**$9,405,390**	**$951,729**

Expense

One expense sample for a lease agreement, valued at $27,062 annually, pertained to frequent payments for use of 208.5 square feet of building space, and was improperly recorded to Account 6423, Buried Cable

[16] *See* 47 C.F.R. §§ 32.2210; 32.2230 (2020).
[17] *See* 47 C.F.R. § 32.1220(c) (2020).
[18] *See* 47 C.F.R. §§32.2210; 32.2230 (2020).
[19] *See* 47 C.F.R. §§36.125(a-b); 36.126(b)(1); 36.126(b)(2)(iii) (2020).

Expense,[20] rather than being reported in the rent subsidiary record category for Account 6121, Land and Building Expense.[21]

Because the Beneficiary misclassified COE assets and one expense sample, AAD concludes that these transactions are not reported accurately for High Cost filing purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that the Beneficiary reported accurate information for High Cost program purposes. The Beneficiary stated that the space rental expense was booked in the wrong account by mistake, and the capitalized equipment was based on advice from financial statement auditors and an interpretation of Part 32 guidance.[22]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of spare equipment from the COE amounts, per the chart above, including the corresponding depreciation expense and accumulated depreciation, and adding in the inventory, along with subtracting and adding the value of the annual expense to the total amount reported by the Beneficiary in its respective and related accounts in its High Cost program filings. AAD summarized the results below:

Support Type	Monetary Effect
HCL	($42,895)
CAF BLS	($26,380)
Total	**($69,275)**

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes to demonstrate compliance with FCC Rules. The Beneficiary must develop and implement policies, procedures and processes that describe how the Beneficiary will ensure the recording of transactions to the proper Part 32 accounts for the account balances that it submits for High Cost program purposes, including spare items within inventory accounts. More information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Beneficiary agrees with the finding.

[20] *See* 47 C.F.R. §32.6423 (2020).
[21] *See* 47 C.F.R. §§32.2111(c); 32.6121 (2020).
[22] *See* Beneficiary response to the audit results summary, received Nov. 7, 2024.

CRITERIA

Finding	Criteria	Description
#1, #3	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.
#1	47 C.F.R. § 32.2003 (2020)	(a) This account shall include the original cost of construction projects (note also § 32.2000(c)) of this part and the cost of software development projects that are not yet ready for their intended use. (b) There may be charged directly to the appropriate plant accounts the cost of any construction project which is estimated to be completed and ready for service within two months from the date on which the project was begun. There may also be charged directly to the plant accounts the cost of any construction project for which the gross additions to plant are estimated to amount to less than $100,000. (c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to §§ 43.21(e)(1) and 43.21(e)(2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7300, Nonoperating income and expense. (d) When any telecommunications plant, the cost of which has been included in this account, is completed ready for service, the cost thereof shall be credited to this account and charged to the appropriate telecommunications plant or other accounts.
#1	47 C.F.R. § 32.6112 (2020)	(a) This account shall include costs of fuel, lubrications, license and inspection fees, washing, repainting, and minor accessories. Also included are the costs of personnel whose principal job is operating motor vehicles, such as chauffeurs and shuttle bus drivers. The costs of users of motor vehicles whose principal job is not the operation of motor vehicles shall be charged to accounts appropriate for the activities performed. (b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
#1, #4	47 C.F.R. § 32.6121 (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
		(b) The cost of electrical power used to operate the telecommunications network shall be charged to Account 6531, Power Expense, and the cost of separately metered electricity used for operating specific types of equipment, such as computers, shall be charged to the expense account appropriate for such use.
#1	47 C.F.R. § 32.6124 (2020)	This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also § 32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.
#1	47 C.F.R. § 32.6212 (2020)	(a) This account shall include expenses associated with digital electronic switching. Digital electronic switching expenses shall be maintained in the following subaccounts: 6212.1 Circuit, 6212.2 Packet. (b) This subaccount 6212.1 Circuit shall include expenses associated with digital electronic switching equipment used to provide circuit switching. (c) This subaccount 6212.2 Packet shall include expenses associated with digital electronic switching equipment used to provide packet switching.
#1	47 C.F.R. § 32.6232 (2020)	(a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical. (b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment. (c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit equipment.
#1	47 C.F.R. § 32.6362 (2020)	This account shall include expenses associated with other terminal equipment.
#1, #4	47 C.F.R. § 32.6423 (2020)	(a) This account shall include expenses associated with buried cable. (b) Subsidiary record categories shall be maintained as provided in § 32.2423(a) of subpart C.
#1	47 C.F.R. § 32.6512 (2020)	(a) This account shall include costs incurred in provisioning material and supplies, including office supplies. This includes receiving and stocking, filling requisitions from stock, monitoring and replenishing stock levels, delivery of material, storage, loading or unloading and administering the reuse or refurbishment of material. Also included are adjustments resulting from the periodic inventory of material and supplies. (b) Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs

Finding	Criteria	Description
		are to be cleared by adding to the cost of material and supplies a suitable loading charge.
#1	47 C.F.R. § 32.6532 (2020)	This account shall include costs incurred in network administration. This includes such activities as controlling traffic flow, administering traffic measuring and monitoring devices, assigning equipment and load balancing, collecting and summarizing traffic data, administering trunking, and assigning interoffice facilities and circuit layout work.
#1	47 C.F.R. § 32.6533 (2020)	This account shall include costs incurred in testing telecommunications facilities from a testing facility (test desk or other testing system) to determine the condition of plant on either a routine basis or prior to assignment of the facilities; receiving, recording and analyzing trouble reports; testing to determine the nature and location of reported trouble condition; and dispatching repair persons or otherwise initiating corrective action. (Note also § 32.5999(b)(3) of this subpart.)
#1	47 C.F.R. § 32.6534 (2020)	(a) This account shall include costs incurred in the general administration of plant operations. This includes supervising plant operations (except as specified in § 32.5999(a)(3) of this subpart; planning, coordinating and monitoring plant operations; and performing staff work such as developing methods and procedures, preparing and conducting training (except on-the-job training) and coordinating safety programs. (b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See § 32.2000(c)(2)(ii) of subpart C.)
#1	47 C.F.R. § 32.6535 (2020)	(a) This account shall include costs incurred in the general engineering of the telecommunications plant which are not directly chargeable to an undertaking or project. This includes developing input to the fundamental planning process, performing preliminary work or advance planning in connection with potential undertakings, and performing special studies of an engineering nature. (b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See § 32.2000(c)(2)(ii) of subpart C.)
#1	47 C.F.R. § 32.6612 (2020)	Companies shall use this account for expenses of the type and character detailed in Accounts 6611 through 6613.
#1	47 C.F.R. § 32.6613 (2020)	This account shall include costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes nonproduct-related advertising, such as corporate image, stock and bond issue and employment advertisements, which shall be included in the appropriate functional accounts.
#1	47 C.F.R. § 32.6623 (2020)	(a) This account shall include costs incurred in establishing and servicing customer accounts. This includes: (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts;

Finding	Criteria	Description
		(3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills; (4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. (b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations.
#1	47 C.F.R. § 32.6720 (2020)	This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities;

Finding	Criteria	Description
		(4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services; (5) Job analysis and salary programs; (6) Labor relations activities; (7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general

Finding	Criteria	Description
		security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#2	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.
#2	47 C.F.R. § 32.6560 (2020)	Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565.
#2, #3, #4	47 C.F.R. § 32.2230 (2020)	This account shall be used by companies to record the original cost of radio systems and circuit equipment of the type and character detailed in Accounts 2231 and 2232.
#2, #3	47 C.F.R. § 32.2410 (2020)	This account shall be used by companies to record the original cost of cable and wire facilities of the type and character detailed in Accounts 2411 through 2441.
#2	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.

Finding	Criteria	Description
#3	47 C.F.R. § 36.121(c) (2020)	(c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records. (1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories. (i) The cost of power equipment used by one category is assigned directly to that category, *e.g.,* 130-volt power supply provided for circuit equipment. The cost of emergency power equipment protecting only power equipment used by one category is also assigned directly to that category. (ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment.
#3	47 C.F.R. § 36.152(a)(1-2) (2020)	(1) Exchange Line C&WF Excluding Wideband—Category 1—This category includes C&W facilities between local central offices and subscriber premises used for message telephone, private line, local channels, and for circuits between control terminals and radio stations providing very high frequency maritime service or urban or highway mobile service. (2) Wideband and Exchange Trunk C&WF—Category 2—This category includes all wideband, including Exchange Line Wideband and C&WF between local central offices and Wideband facilities. It also includes C&WF between central offices or other switching points used by any common carrier for interlocal trunks wholly within an exchange or metropolitan service area, interlocal trunks with one or both terminals outside a metropolitan service area carrying some exchange traffic, toll connecting trunks, tandem trunks principally carrying exchange traffic, the exchange trunk portion of WATS access lines, the exchange trunk portion of private line local channels, and the exchange trunk portion of circuits between control terminals and radio stations providing very high frequency maritime service or urban or highway mobile service.

Finding	Criteria	Description
#3	47 C.F.R. § 36.126(b)(1)(iii) (2020)	(iii) Exchange Line Circuit Equipment Excluding Wideband—Category 4.13.
#3, #4	47 C.F.R. § 36.126(b)(1) (2020)	(1) Exchange Circuit Equipment—Category 4.1. (i) Wideband Exchange Line Circuit Equipment—Category 4.11. (ii) Exchange Trunk Circuit Equipment (Wideband and Non-Wideband)— Category 4.12. (iii) Exchange Line Circuit Equipment Excluding Wideband—Category 4.13.
#3, #4	47 C.F.R. § 36.126(b)(2)(iii) (2020)	(iii) All Other Interexchange Circuit Equipment—Category 4.23.
#3	47 C.F.R. § 36.126(c) (2020)	(c) Apportionment of Exchange Circuit Equipment Among the Operations: (1) Wideband Exchange Line Circuit Equipment—Category 4.11—The cost of exchange circuit equipment in this category is determined separately for each wideband facility. The respective costs are allocated to the appropriate operation in the same manner as the related exchange line cable and wire facilities described in §36.155. (2) Exchange Trunk Circuit Equipment (Wideband and Non-Wideband)— Category 4.12—The cost of exchange circuit equipment associated with this category for the study area is allocated to the appropriate operation in the same manner as the related exchange trunk cable and wire facilities as described in §36.155. (3) Exchange Line Circuit Equipment Excluding Wideband—Category 4.13— The cost of Circuit Equipment associated with exchange line plant excluding wideband for the study area is assigned to subcategories and is allocated to the appropriate operation in the same manner as the related exchange line cable and wire facilities for non- wideband service as described in §36.154. (4) Effective July 1, 2001, through December 31, 2024, all study areas shall apportion costs in the categories/subcategories, as specified in paragraphs (b)(1) through (4) of this section, among the jurisdictions using the relative use measurements or factors, as specified in paragraphs (c)(1) through (3) of this section for the twelve-month period ending December 31, 2000. Direct assignment of any subcategory of Category 4.1 Exchange Circuit Equipment to the jurisdictions shall be updated annually.
#3	47 C.F.R. § 36.154 (2020)	(a) *Exchange Line C&WF—Category 1.* The first step in apportioning the cost of exchange line cable and wire facilities among the operations is the determination of an average cost per working loop. This average cost per working loop is determined by dividing the total cost of exchange line cable and wire Category 1 in the study area by the sum

Finding	Criteria	Description
		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. (b) The costs assigned to subcategories 1.1 and 1.2 shall be directly assigned to the appropriate jurisdiction. (c) Effective January 1, 1986, 25 percent of the costs assigned to subcategory 1.3 shall be allocated to the interstate jurisdiction. (d)–(f) [Reserved] (g) Effective July 1, 2001, through December 31, 2024, all study areas shall apportion Subcategory 1.3 Exchange Line C&WF among the jurisdictions as specified in paragraph (c) of this section. Direct assignment of subcategory Categories 1.1 and 1.2 Exchange Line C&WF to the jurisdictions shall be updated annually as specified in paragraph (b) of this section.
#3	47 C.F.R. § 36.155 (2020)	(a) The cost of C&WF applicable to this category shall be directly assigned where feasible. If direct assignment is not feasible, cost shall be apportioned between the state and interstate jurisdictions on the basis of the relative number of minutes of use. (b) Effective July 1, 2001, through December 31, 2024, all study areas shall apportion Category 2 Wideband and exchange trunk C&WF among the jurisdictions using the relative number of minutes of use, as specified in paragraph (a) of this section, for the twelve-month period ending December 31, 2000. Direct assignment of any Category 2 equipment to the jurisdictions shall be updated annually.
#4	47 C.F.R. §§ 32.2(a),(b) (2020)	(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial

Finding	Criteria	Description
		account structure. (b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions *performed by* the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions *performed by* individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services *purchased by* customers.
#4	47 C.F.R. § 36.125(a-b) (2020)	(a) Local switching equipment is included in account 2210. It comprises all central office switching equipment not assigned other categories. Examples of local switching equipment are basic switching train, toll connecting trunk equipment, interlocal trunks, tandem trunks, terminating senders used for toll completion, toll completing train, call reverting equipment, weather and time of day service equipment, and switching equipment at electronic analog or digital remote line locations. Equipment used for the identification, recording and timing of customer dialed charge traffic, or switched private line traffic (*e.g.*, transmitters, recorders, call identity indexers, perforators, ticketers, detectors, mastertimes) switchboards used solely for recording of calling telephone numbers in connection with customer dialed charge traffic, or switched private line traffic (or both) is included in this local switching category. Equipment provided and used primarily for operator dialed toll or customer dialed charge traffic except such equipment included in Category 2 Tandem Switching Equipment is also included in this local switching category. This includes such items as directors, translators, sender registers, out trunk selectors and facilities for toll intercepting and digit absorption. Special services switching equipment which primarily performs the switching function for special services (*e.g.*, switching equipment, TWX concentrators and switchboards) is also included in this local switching category. (1) Local office, as used in § 36.125, comprises one or more local switching entities of the same equipment type (e.g., step-by-step, No. 5 Crossbar) in an individual location. A local switching entity comprises that local central office equipment of the same type which has a common intermediate distributing frame, market group or other separately identifiable switching unit serving one or more prefixes (NNX codes). (2) A host/remote local switching complex is composed of an electronic analog or digital host office and all of its remote

Finding	Criteria	Description
		locations. A host/remote local switching complex is treated as one local office. The current jurisdictional definition of an exchange will apply. (3) Dial equipment minutes of use (DEM) is defined as the minutes of holding time of the originating and terminating local switching equipment. Holding time is defined in the Glossary. (4) The interstate allocation factor is the percentage of local switching investment apportioned to the interstate jurisdiction. (5) The interstate DEM factor is the ratio of the interstate DEM to the total DEM. A weighted interstate DEM factor is the product of multiplying a weighting factor, as defined in paragraph (f) of this section, to the interstate DEM factor. The state DEM factor is the ratio of the state DEM to the total DEM. (b) Beginning January 1, 1993, Category 3 investment for study areas with 50,000 or more access lines is apportioned to the interstate jurisdiction on the basis of the interstate DEM factor. Category 3 investment for study areas with 50,000 or more access lines is apportioned to the state jurisdiction on the basis of the state DEM factor.
#4	47 C.F.R. § 32.2111(c) (2020)	(c) Annual or more frequent payments for use of land shall be recorded in the rent subsidiary record category for Account 6121, Land and Building Expense.
#4	47 C.F.R. § 32.2210 (2020)	This account shall be used by companies to record the original cost of switching assets of the type and character detailed in Accounts 2211 through 2212.
#4	47 C.F.R. § 32.1220(c) (2020)	(c) 1220.1 Material and supplies. This subaccount shall include cost of material and supplies held in stock including plant supplies, motor vehicles supplies, tools, fuel, other supplies and material and articles of the company in process of manufacture for supply stock. (Note also §32.2000(c)(2)(iii) of this subpart.)

This concludes the report.

Attachment D

HC2024LR013

Craw-Kan Telephone Cooperative, Inc.

Audit ID: HC2024LR013

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: September 25, 2025

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

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

EXECUTIVE SUMMARY

September 25, 2025

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the limited review performance audit objectives relative to Craw-Kan Telephone Cooperative, Inc. ("Craw-Kan" or "Beneficiary") Study Area Code ("SAC") No. 411818 for disbursements made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2022. Our work was performed from February 27, 2024 to September 25, 2025.

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

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

The objective of this limited review performance audit was to evaluate the Beneficiary's compliance with select Federal Communications Commission ("FCC") rules and regulations and orders related to the Universal Service High Cost Program, including those set forth in 47 C.F.R. ("Code of Federal Regulations") Parts 32, 36, 51, 54, 64 and 69, (collectively "FCC Rules"), relative to disbursements of $8,442,306, made from the High Cost Program during the twelve-month period ended December 31, 2022.

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

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

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

In addition, we also noted two other matters that are not significant within the context of the audit objective and does not necessarily constitute a rule violation but warrants the Beneficiary and USAC Management’s attention. We reported these other matters to the Beneficiary’s management in a separate letter dated September 25. 2025.

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

Sincerely,

KPMG LLP

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect Overpayment (Underpayment)[1]				Recommended Recovery[2]
	HCL	CAF BLS	CAF ICC[3]	Total	
HC2024LR013-F01: 47 C.F.R. § 32.2000(g(2)(i) – 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 FCC Rules.	$13,438	$2,677	N/A	$16,115	$16,115
HC2024LR013-F02: 47 C.F.R. § 54.7 – Intended Use of Federal Universal Service Support – The Beneficiary included two expenses related to employee gifts and entertainment in the USF filings, which are not related to regulated activity.	$2,714	$2,599	N/A	$5,313	$5,313
HC2024LR013-F03: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Counts – The Beneficiary reported 36 more lines on the 2021-2 HCL Form and 4 more lines on the 2021-4 HCL Form than what was in the billing register for the respective periods.	$4,560	N/A	N/A	$4,560	$4,560
Total Net Monetary Effect	**$20,712**	**$5,276**	**$0**	**$25,988**	**$25,988**

[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 HC Program will net findings resulting in underpayment with findings resulting in an overpayment.

[3] The Connect America Fund Intercarrier Compensation ("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.

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 411818, for the High Cost Program support in the amount noted in the chart below.

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

	HCL (A)	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$13,438	$2,677	N/A	$16,115	N/A
Finding #2	$2,714	$2,599	N/A	$5,313	N/A
Finding #3	$4,560	N/A	N/A	$4,560	N/A
Mechanism Total	**$20,712**	**$5,276**	**$0**	**$25,988**	**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 permanent administrator of the Universal Service Fund ("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 Mechanisms are noted below:

1. High Cost Loop ("HCL"): HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following sub-component:
   a. Safety Valve Support ("SVS"): SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. Connect America Fund 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

Craw-Kan Telephone Cooperative, Inc. ("Craw-Kan" or "Beneficiary") (SAC No. 411818), located in Girard, Kansas, serves over 11,000 customers in Kansas, Missouri, and Oklahoma. Craw-Kan provides both local and nationwide long-distance telephone service, digital cable television service, broadband, and high-speed data technology, in addition to local telephone service. The Beneficiary is a cooperative solely owned by its members. All ILEC, Competitive Local Exchange Carrier ("CLEC"), and non-regulated operations are provided by Craw-Kan and are all accounted for in one set of records.

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

High Cost Support	Disbursement Amount
CAF BLS	$4,191,666
CAF ICC	$474,786
HCL	$3,775,854
Total	**$8,442,306**

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, 2021-2, 2021-3, 2021-4 HCL Forms, based on the twelve-month periods ended December 31, 2020, March 31, 2021, June 30, 2021 and September 30, 2021, respectively,
- 2021 FCC Form 509, based on calendar year 2020 data, and
- 2021 CAF ICC Form, based on program year 2020 and 2021 data

OBJECTIVE

The audit objective of this limited review performance audit was to evaluate the Beneficiary’s compliance with select FCC rules, and regulations and orders related to the High Cost Program, including those set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC’s Rules as well as specified in FCC Orders governing federal USF support for the High Cost Program relative to disbursements, of $8,442,306, made from the High Cost Program during the twelve-month period ended December 31, 2022.

SCOPE

The scope of our work relates to the High Cost Program forms or other correspondence filed by the Beneficiary for the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022 related to SAC No. 411818.[4]

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

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

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

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

PROCEDURES

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

1. **Materiality Analysis**

   For applicable High Cost Program forms, we obtained the forms submitted for the periods ended December 31, 2020, March 31, 2021, June 30, 2021, and September 30, 2021, 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 and 2021 financial statements and reconciled to the General Ledger ("G/L"), from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost Program forms.

3. **Assets**

   KPMG utilized a monetary unit sampling ("MUS") [6] methodology to select 28 asset sample items from material accounts identified in the relevant High Cost Program forms. We made asset selections from Continuing Property Record ("CPR") details, and material accounts included COE and C&WF accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

4. **Expenses**

   KPMG utilized a MUS methodology to select 34 expense sample items including payroll from material operating expense accounts identified in the relevant High Cost Program forms. For the selected expense sample items, we agreed the recorded expense amounts to the supporting documentation such as invoices. We reviewed support for proper Part 32 account and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

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

6. **COE Categorization**

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

7. **C&WF Categorization**

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

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

8. **Overheads**

   KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2020 and 2021. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

9. **Taxes**

   KPMG determined the tax filing status for the Beneficiary was tax-exempt and obtained and reviewed the tax-exempt designation by the Internal Revenue Service, noting the provisions of Section 501(c)(12). KPMG validated that only property taxes were included in Craw-Kan's HCL and BLS forms.

10. **Part 64 Cost Allocations**

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

11. **Affiliate Transactions**

    Craw-Kan is a cooperative solely owned by its members. All ILEC, CLEC, and non-regulated operations are provided by Craw-Kan Telephone Company Cooperative and are all accounted for in one set of books. While the Beneficiary is regulated by the FCC and subject to the FCC accounting rules set forth in 47 C.F.R. Part 32, Craw-Kan did not have any affiliated companies as of the date of this report. As such, KPMG did not perform any testing in this area as it was not applicable.

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 cost allocation requirements under 47 C.F.R. Part 64, as well as separations requirements under 47 C.F.R. Part 36 and Part 69, and other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

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

HC2024LR013-F01: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary utilized ending monthly asset balances to calculate Depreciation Expense and Accumulated Depreciation rather than the average monthly asset balances prescribed by FCC Rules[7]. As a result, we noted differences in the reported Depreciation Expense and Accumulated Depreciation balances.

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

Account Description	Account Balance Reported to NECA	Balance Supported by Testing	Variance for the 12 months ended December 31, 2020
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$24,644,467	$24,642,896	$1,571
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$59,117,014	$59,106,207	$10,807
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$924,529	$922,958	$1,571
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$3,756,119	$3,745,312	$10,807

The differences noted in the Depreciation Expense and Accumulated Depreciation balances for the twelve-month period ended March 31, 2021, impacting the 2021-2 HCL form, are as follows:

Account Description	Account Balance Reported to NECA	Balance Supported by Testing	Variance for the 12 months ended March 31, 2021
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$24,124,533	$24,122,959	$1,574
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$57,420,027	$57,409,349	$10,678
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$1,116,678	$1,115,104	$1,574

[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.

Account Description	Account Balance Reported to NECA	Balance Supported by Testing	Variance for the 12 months ended March 31, 2021
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$3,806,998	$3,796,320	$10,678

The differences noted in the Depreciation Expense and Accumulated Depreciation balances for the twelve-month period ended June 30, 2021, impacting the 2021-3 HCL form, are as follows:

Account Description	Account Balance Reported to NECA	Balance Supported by Testing	Variance for the 12 months ended June 30, 2021
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$24,430,685	$24,424,483	$6,202
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$58,502,025	$58,466,635	$35,390
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$1,235,769	$1,229,567	$6,202
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$4,002,409	$3,967,019	$35,390

The differences noted in the Depreciation Expense and Accumulated Depreciation balances for the twelve-month period ended September 30, 2021, impacting the 2021-4 HCL form, are as follows:

Account Description	Account Balance Reported to NECA	Balance Supported by Testing	Variance for the 12 months ended September 30, 2021
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$24,947,379	$24,934,185	$13,194
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$59,643,176	$59,618,203	$24,973
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$1,502,606	$1,489,412	$13,194
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$4,205,932	$4,180,959	$24,973

CAUSE

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

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the 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 $16,115 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$13,438
CAF BLS	$2,677
CAF ICC	N/A
Total	**$16,115**

RECOMMENDATION

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

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

BENEFICIARY RESPONSE

Craw-Kan will research to see if their accounting system can perform depreciation calculations based on monthly average balances and make that update if possible. The impact of using monthly ending balance vs. average monthly is merely a timing difference as additions will depreciate ½ a month faster using the end of month method, but depreciation will end ½ month earlier than if using the average monthly method. The overall impact of this methodology difference is non-existent over the life of the assets.

KPMG RESPONSE

KPMG notes that this is a timing difference over the life of the assets. However, compliance with the average monthly balance depreciation method impacts the correct amount of depreciation to be included in filings for USF support applicable to the period under audit.

HC2024LR013-F02: 47 C.F.R. § 54.7 – Intended Use of Federal Universal Service Support

CONDITION

KPMG selected and tested a statistical sample of 34 expense transactions to determine whether the Beneficiary reported its expense account balances accurately for High Cost Program purposes. The Beneficiary included two expenses for employee gifts and entertainment, one for September 2020 and one for September 2021, that were incorrectly reported as regulated activity and were in violation of FCC 18-29[8], which details a non-exhaustive list of expenditures that cannot be recovered through the High Cost Program. FCC Rules require that a carrier that receives federal USF support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the

[8] *See* 33 FCC Rcd 2990 (4) (2020)

support is intended.[9]

The total amount of the two expense items relevant filings associated with disbursements relative to the twelve-month period ended December 31, 2020, is as follows:

Form and Reporting Period	Account Description	Account Balance Reported to NECA	Balance Supported by Testing	Variance
2021-1 HCL Form and Form 509	Account 6720: General & Administrative Expense	$1,191,408	$1,180,287	$11,121
2021-2 HCL Form	Account 6720: General & Administrative Expense	$1,200,718	$1,189,597	$11,121
2021-3 HCL Form	Account 6720: General & Administrative Expense	$1,281,513	$1,270,392	$11,121
2021-4 HCL Form	Account 6720: General & Administrative Expense	$1,292,292	$1,291,192	$1,100

CAUSE

The Beneficiary did not have adequate processes in place governing the proper recording and reporting of non-regulated expense amounts for purposes of USF disbursements as prescribed by 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 $5,313 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$2,714
CAF BLS	$2,599
CAF ICC	N/A
Total	**$5,313**

RECOMMENDATION

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

KPMG recommends the Beneficiary should enhance the 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/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Craw-Kan has a detailed review process in place to ensure only regulated expenses are reported for High Cost Programs.

[9] *See* 47 CFR 54.7 (2020)

HC2024LR013-F03: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Counts

CONDITION

KPMG reviewed the Total Loops and Category 1.3 Loops on each HCL of the four HCL Forms filed by the Beneficiary for the period to the Billing Register support for each of the four twelve-month periods, December 31, 2020 for the 2021-1 HCL Form, March 31, 2021 for the 2021-2 HCL Form, June 30, 2021 for the 2021-3 HCL form and September 30, 2021 for the 2021-4 HCL form. During our review, we noted that the Beneficiary did not accurately report the Category 1.3 Loops and Total Loops for two of the HCL dash filings compared to what was recorded in the billing register. FCC Rules define which loops should be counted as "working loops" and which can be excluded.[10]

The differences noted in the Category 1.3 Loops and Total Loops for the twelve-month period ended March 31, 2021, impacting the 2021-2 HCL form, are as follows:

HCL Form Line	Loops Reported to NECA	Loops Supported By Testing	Variance
Category 1.3 Loops	9,331	9,367	(36)
Total Loops	9,356	9,392	(36)

The differences noted in the Category 1.3 Loops and Total Loops for the twelve-month period ended September 30, 2021, impacting the 2021-4 HCL form, are as follows:

HCL Form Line	Loops Reported to NECA	Loops Supported By Testing	Variance
Category 1.3 Loops	9,352	9,356	(4)
Total Loops	9,369	9,373	(4)

CAUSE

The Beneficiary did not have adequate processes in place governing the proper recording and reporting of loops as prescribed by 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 $4,560 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$4,560
CAF BLS	N/A
CAF ICC	N/A
Total	**$4,560**

[10] *See* 47 CFR 54.1305(i) (2020)

RECOMMENDATION

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

BENEFICIARY RESPONSE

Craw-Kan agrees with the finding and will continue to review billing reports to ensure compliance with the FCC Rules and Orders.

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 (a) through (d) (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. §54.7(a) and (c)(4) (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: […] (4) Gifts to employees; childcare; housing allowances or other forms of mortgage or rent assistance for employees except that a reasonable amount of assistance shall be allowed for work related temporary or seasonal lodging; cafeterias and dining facilities; food and beverage

Finding	Criteria	Description
		except that a reasonable amount shall be allowed for work-related travel; entertainment."
#3	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.
#3	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."
#3	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."

CONCLUSION

KPMG's evaluation of the Beneficiary's compliance with select FCC rules and regulations and orders related to the High Cost Program, including those set forth in 47 C.F.R. § 32, 36, 51, 54, 64 and 69 relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022 identified three findings as presented in the Audit Results and Recovery Action section.

** This concludes the audit report.**

Attachment E

HC2024LR016

KPMG

Laurel Highland Telephone Company

Audit ID: HC2024LR016

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: September 23, 2025

KPMG LLP
8350 Broad Street #900
McLean, VA 22102

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KPMG

KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

September 23, 2025
Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the limited review performance audit objective relative to Laurel Highland Telephone Company ("Laurel" or "Beneficiary") Study Area Code ("SAC") No. 170179 for disbursements made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2022. Our work was performed from February 9, 2024 to September 23, 2025.

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

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

The objective of this limited review performance audit was to evaluate the Beneficiary's compliance with select Federal Communications Commission's ("FCC") rules and regulations and orders related to the High Cost Program, including those set forth in 47 C.F.R. ("Code of Federal Regulations") Parts 32, 36, 51, 54, 64 and 69, (collectively "FCC Rules") relative to disbursements, of $1,653,528, made from the High Cost Program during the twelve-month period ended December 31, 2022.

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

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

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

In addition, we also noted two other matters that are not significant within the context of the audit objective and do not necessarily constitute a rule violation but warrant the Beneficiary and USAC Management's attention. We reported these other matters to the Beneficiary's management in a separate letter dated September 23, 2025.

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

Sincerely,

KPMG LLP

cc: 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 Recovery[2]
	CAF BLS	CAF ICC[3]	Total	
HC2024LR016-F01: 47 C.F.R. §32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation – The Beneficiary utilized the straight-line method rather than average monthly asset balances to calculate Depreciation Expense and Accumulated Depreciation.	($161,690)	N/A	($161,690)	$0
HC2024LR016-F02: 47 C.F.R. §32.2(a) and (b) – Misclassified Expense – The Beneficiary included in their High Cost filings one expense item relating to accrued telecommunication services that it did not incur during the audit period.	$17,512	N/A	$17,512	$17,512
HC2024LR016-F03: 47 C.F.R. §54.903 (a)(4) – Inaccurate Loop Counts – The Beneficiary understated the quantity of Consumer Broadband Only Loops ("CBOL") on Form 509 compared to the monthly average quantity CBOL in the billing registers for the audit period.	$152,824	N/A	$152,824	$152,824
Total Net Monetary Effect	**$8,646**	**N/A**	**$8,646**	**$170,336**

[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 recommended 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. See the table in the USAC Management Response section for netting of findings.

[3] The Connected America Fund Intercarrier Compensation 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.

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 170179, for the High Cost Program support in the amount noted in the chart below.

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

	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	($161,690)	-	($161,690)	-
Finding #2	$17,512	-	$17,512	-
Finding #3	$152,824	-	$152,824	-
Mechanism Total	**$8,646**	**-**	**$8,646**	**-**

BACKGROUND, OBJECTIVE, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

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

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

1. High Cost Loop ("HCL"): HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following sub-component:
    a. Safety Valve Support ("SVS"): SVS is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
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

Laurel Highland Telephone Company (SAC No. 170179), located in Donegal, Pennsylvania, serves over 4,000 customers and provides telecommunications services in the Laurel Highland area of Pennsylvania.

The Beneficiary is a wholly owned subsidiary of Laurel Highland Total Communications, Inc. ("LH Total") which has 10 additional subsidiaries. LH Total and the subsidiaries collectively provide local telephone, internet and cable television services.

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

High Cost Support	Disbursement Amount
CAF BLS	$1,248,438
CAF ICC	$405,090
Total	**$1,653,528**

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 USAC:

- 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, 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 as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, totaling $1,653,528, 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. It includes procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022 related to SAC noted in the Beneficiary overview section above.[4]

Our performance audit as defined by the FCC for High Cost 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

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

[5] If exceptions (that is, 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 and reconciled the audited 2020 financial statements to the General Ledger ("G/L"). We then reconciled the G/L to the Part 64 cost allocation inputs and then to the applicable High Cost Program forms.

3. **Assets**

   KPMG utilized monetary unit sampling ("MUS")[6] methodology to select 29 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 including 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 MUS methodology to select 30 expense samples including payroll from material operating expense accounts identified in the relevant High Cost Program forms. We agreed expense amounts to the supporting documentation such as invoices, and we reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

   For the relevant High Cost Program forms (namely, those for CAF BLS and CAF ICC), completeness of reported accounts was assessed via reconciliations to the audited financial statements via the "Reconciliation" process described above. Irreconcilable items were discussed with the Beneficiary and support was requested and 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 with 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

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

amounts reconciled to studies and whether amounts agreed to the HCL form data and also performed a route distance inspection.

8. Overheads

KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2020. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

9. Taxes

KPMG determined the Beneficiary is a taxable C-Corporation and files its federal income tax return as a consolidated filling group under Laurel Highland Total Communications, Inc. We obtained and reviewed the federal and state tax filings for 2020 and reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness and developed an expectation of the effective tax rate. Additionally, we reviewed the Part 64 apportionment of operating tax account balances and evaluated the reasonableness of cost allocation methods.

10. Part 64 Cost Allocations

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

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that included billing and collection fees, DSL and facility access charges and rent expenses that occurred during 2020. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the 11 samples selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and 47 C.F.R. Section 36.2 and categorized in the appropriate Part 32 accounts.

12. Revenues, Subscriber Listings and Billing Records

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

13. Revenue Requirement

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

RESULTS

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

HC2024LR016-F01:47 C.F.R. §32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary utilized the straight-line method rather than average monthly asset balances to calculate Depreciation Expense and Accumulated Depreciation as prescribed by FCC Rules[7] for the period of January 1, 2020 to December 31, 2020.

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

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	Variance for the 12 months ended December 31, 2020
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$1,005,773	$1,058,184	$52,411
Account 3100 (2410): Accumulated Depreciation – Cable and Wire Facilities	$13,563,935	$13,934,559	$370,624
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	$169,492	$221,903	$52,411
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$542,499	$913,123	$370,624

CAUSE

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

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the 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 underpayment of $161,690 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($161,690)
CAF ICC	N/A
Total	**($161,690)**

[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 the Beneficiary enhance the preparation, review, and approval processes governing the calculation of depreciation to ensure compliance with FCC Rules and Orders.

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

BENEFICIARY RESPONSE

We disagree with the stated cause that we "did not have adequate processes in place governing the proper calculation of depreciation using the appropriate methodology as prescribed by FCC Rules." This discrepancy was not caused by inadequate processes in place but rather, it resulted from Management's decision to use the straight-line method in order to avoid depreciating certain assets over and above the related cost. Additionally, we disagree with the selective inclusion of depreciation variances in the auditors analysis. More specifically, we disagree with the auditors decision to include variances related to the central office switching, central office transmission, and cable and wire asset categories while excluding those associated with general support assets. Had the depreciation variances for general support assets been included, the total underpayment would have increased to $300,465. In our view, depreciation variances, regardless of asset type, should be treated consistently, as they all impact the reported costs and ultimately the disbursement amounts. The exclusion of general support asset depreciation variances results in an incomplete view of the financial impact and materially understates the overall underpayment. This inconsistency is significant and relevant to the audit finding.

KPMG RESPONSE

KPMG understands the Beneficiary's rationale for the method used but notes the decision to use a method that is not compliant with FCC Rules reflects a weakness in the process. KPMG included the depreciation variances based on the scope of the performance audit, which did not include general support assets, as they are immaterial to the High Cost Program calculations. KPMG acknowledges the receipt of the Beneficiary's alternative impact calculation including general support assets and notes the change in depreciation method does affect general support assets and therefore would likely result in an increased underpayment amount for this finding. As we did not conduct procedures over general support assets in the scope of this performance audit and did not receive USAC approval to expand the scope, we have not included the impact of general support assets in the monetary effect of this depreciation finding.

HC2024LR016-F02: 47 C.F.R. §32.2(a) and (b) – Misclassified Expense

CONDITION

KPMG utilized a sampling tool to select a sample of 30 random expense items across accounts material to the High Cost Program filings to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary reported one expense item relating to accrued telecommunication services for which it did not incur the expense nor make any payments during the audit year as the vendor never provided or billed the Beneficiary for the service. The Beneficiary wrote off this transaction and removed the expense amount from its accounting records in a subsequent year. However, the expense item was inappropriately included in the High Cost Program filings for the performance audit period, resulting in an overstatement of expenses, which is prohibited by FCC Rules.[8]

The difference noted relevant to the twelve-month period ended December 31, 2020, impacting Form 509 is as follows:

Account Description	Account Balance Reported to USAC	Balance Supported by Testing	Variance for the 12 months ended December 31, 2020
Account 6623: Customer Service	$30,000	$0	($30,000)

CAUSE

The Beneficiary did not have adequate processes in place to govern the proper recording and reporting of accrued expense amounts by validating expenses were incurred for the period and should be included in the High Cost Program filings for purposes of USF disbursements as prescribed by 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 $17,512 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$17,512
CAF ICC	N/A
Total	**$17,512**

RECOMMENDATION

KPMG recommends that USAC Management recover the amount noted in the Effect Section above.

KPMG recommends the Beneficiary enhance the process of preparation, review, and approval of expense transactions to ensure only regulated and allowable 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/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

We disagree with the stated cause that we "did not have adequate processes in place to govern the proper recording and reporting of accrued expense amounts by validating expenses were incurred for the period and should be included in the High Cost filings for purposes of USF disbursements as prescribed by FCC Rules." In this particular case, prior to 2020, Verizon was billing the Company on a monthly basis, for a caller name query service but for some unknown reason, the billing ceased. Management decided to accrue for the expense under Generally Accepted Accounting Principles. In spite of multiple attempts by Management (including discussions with Verizon's staff) to determine why

[8] See 47 C.F.R. § 32.2(a) and (b) and 47 C.F.R. §32.6623 (2020) in the criteria section of the report.

the billing ceased, after several years, we decided to reverse the accrual, which resulted in the discrepancy. At the time the expense was being accrued we had no way of knowing that Verizon would not resume the billing and render a retroactive bill. Management does not take exception to this finding.

KPMG RESPONSE

The Beneficiary disagrees with the stated cause; however, Beneficiary management does not take exception to this finding.

HC2024LR016-F03: 47 C.F.R. §54.903(a)(4) – Inaccurate Loop Counts

CONDITION

KPMG reviewed the average monthly Consumer Broadband-Only Loops for 2020 recorded on the Form 509 and compared it with the average monthly Consumer Broadband-Only Loops that existed in the Beneficiary's billing register. We noted the Beneficiary understated the average monthly Consumer Broadband-Only Loops total that was reported on Form 509 compared to their billing register, thus understating Consumer Broadband-Only Revenues on Form 509 as well.[9] The difference noted relevant to the twelve-month period ended December 31, 2020, impacting Form 509 is as follows:

Average Monthly CBOL Per Billing Register (A)	Average Monthly CBOL Per Form 509 (B)	Average Monthly CBOL Variance (C) = (A-B)
1,877	1,221	656

CAUSE

The Beneficiary did not have adequate processes in place governing the proper reporting of average monthly Consumer Broadband-Only Loops on Form 509 as prescribed by 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 $152,824 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$152,824
CAF ICC	N/A
Total	**$152,824**

RECOMMENDATION

KPMG recommends that USAC Management recover the amount noted in the Effect Section above.

KPMG recommends the Beneficiary enhance the documentation process and reporting of CBOL counts for USF purposes to ensure compliance with FCC Rules and Orders. In addition, the Beneficiary

[9] See 54.903(a)(4) and 47 C.F.R. § 32.12(b) (2020) in the criteria section of the report.

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

At the time of the 2020 study, we were required to manually count Consumer Broadband-Only Loop (CBOL) customers, as there was no automated method available through our billing system. This manual process was labor-intensive and took several months to complete, making it impractical to produce more accurate monthly counts throughout the year. As a result, the best available approach for completing the Form 509 was to calculate an average based on year-end subscriber counts. In 2022, we worked closely with our consultant and billing vendor to automate this process. Since then, we have been able to generate accurate monthly line count data, which is now used consistently and reliably to complete Form 509. This improvement has significantly enhanced the accuracy and timeliness of our reporting. Unfortunately, under the circumstances, while we put forth our best efforts to produce accurate monthly CBOL counts in 2020, Management acknowledges that the counts were not as accurate as they would have been if the automated system had been implemented prior to 2022.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(iii) (2020)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."
#1	47 C.F.R. § 32.3100 (2020)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense—telecommunications plant in service. (Note also Account 3300, Accumulated depreciation—nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#1	47 C.F.R. § 32.6560 (2020)	"Depreciation and amortization expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565."
#2	47 C.F.R. § 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

Finding	Criteria	Description
		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. § 32.6623 (2020)	"(a) This account shall include costs incurred in establishing and servicing customer accounts. This includes: (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts; (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills; (4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. (b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations."
#3	47 C.F.R. § 54.903(a)(4) (2020)	"(4) Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories."
#3	47 C.F.R. § 32.12(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."

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. § 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 three findings as presented in the Audit Results and Recovery Action section.

** This concludes the audit report.**

Attachment F

HC2024LR018

Terral Telephone Company

Audit ID: HC2024LR018

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: September 23, 2025

KPMG LLP
8350 Broad Street #900
McLean, VA 22102

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

September 23, 2025

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the limited review performance audit objectives relative to Terral Telephone Company ("Terral" or "Beneficiary") Study Area Code ("SAC") No. 432029 for disbursements made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2022. Our work was performed from February 29, 2024 to September 23, 2025.

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

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

The objective of this limited review performance audit was to evaluate the Beneficiary's compliance with select Federal Communications Commission's ("FCC") rules, regulations and orders related to the High Cost Program, including those set forth in 47 C.F.R. ("Code of Federal Regulations") Parts 32, 36, 51, 54, 64 and 69 (collectively, "FCC Rules"), relative to disbursements of $605,634 made from the High Cost Program during the twelve-month period ended December 31, 2022.

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

As our report further describes, KPMG identified two 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

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 six other matters that are not significant within the context of the audit objective and does not necessarily constitute a rule violation but warrants the Beneficiary and USAC Management's attention. We reported these other matters to the Beneficiary's management in a separate letter dated September 23, 2025.

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

Sincerely,

KPMG LLP

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

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect Overpayment (Underpayment)[1]				Recommended Recovery[2]
	HCL	CAF BLS	CAF ICC[3]	Total	
HC2024LR018-F01: 47 C.F.R. § 54.320(b) – Lack of Supporting Documentation: Assets – The Beneficiary was unable to provide sufficient and appropriate supporting documentation for 4 of 27 sampled asset transactions.	$1,676	$656	N/A	$2,332	$2,332
HC2024LR018-F02: 47 C.F.R. § 32.2 (a) and (b) – Misclassified Assets – The Beneficiary misclassified 2 asset transactions in the Continuing Property Record ("CPRs") and reported them in its High Cost fillings in C&WF account rather than General Support Assets ("GSA") and COE asset accounts.	$18,167	$5,808	N/A	$23,975	$23,975
Total Net Monetary Effect	**$19,843**	**$6,464**	**N/A**	**$26,307**	**$26,307**

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

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 432029 for the High Cost Program support in the amount noted in the chart below.

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

	HCL (A)	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$1,676	$656	N/A	$2,332	N/A
Finding #2	$18,167	$5,808	N/A	$23,975	N/A
Mechanism Total	**$19,843**	**$6,464**	**N/A**	**$26,307**	**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 permanent administrator of the Universal Service Fund (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 Mechanisms are noted below:

1. High Cost Loop ("HCL"): HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following sub-component:
    a. Safety Valve Support ("SVS"): SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. Connect America Fund 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

Terral Telephone Company ("Terral" or "Beneficiary") (SAC No. 432029), located in Oklahoma City, Oklahoma, serves more than 100 customers and provides local exchange telecommunications services to one exchange in Terral, Oklahoma. Terral is a standalone entity, and its business includes both regulated and non-regulated operations. Its non-regulated operations consist primarily of providing broadband services.

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

High Cost Support	Disbursement Amount
CAF BLS	$138,324
CAF ICC	$245,430
HCL	$221,880
Total	**$605,634**

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 National Exchange Carrier Association ("NECA") and USAC:

- 2021-1 HCL Form, based on the twelve-month periods 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, regulations, and orders related to the High Cost Program, including those set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's rules as well as specified FCC Orders governing federal Universal Service Support for the High Cost Program relative to disbursements, of $605,634 made from the High Cost Program during the twelve-month period ended December 31, 2022.

SCOPE

The scope of our work relates to the High Cost Program forms or other correspondence filed by the Beneficiary for the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2022 related to SAC 432029.[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

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

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

PROCEDURES

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

1. **Materiality Analysis**

   For applicable High Cost Program forms, we obtained the forms submitted for the period ended December 31, 2020, input the information into KPMG's High Cost Program models, and ran a materiality analysis that increased and decreased the account balances by +/- 50%, if the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for purposes of our performance audit.

2. **Reconciliation**

   KPMG obtained the audited 2020 financial statements and reconciled to the General Ledger ("G/L"), from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost Program forms.

3. **Assets**

   KPMG utilized a monetary unit sampling ("MUS") [6] methodology to select 27 asset sample items 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; verified proper Part 32 categorization; and validated the physical existence of selected assets.

4. **Expenses**

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

5. **High Cost Program filings**

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

6. **COE Categorization**

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

7. **C&WF Categorization**

   KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We assessed whether C&WF

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

amounts reconciled to studies and whether amounts agreed to the HCL form data. We also performed a route distance inspection.

8. **Overheads**

KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2020. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

9. **Taxes**

KPMG determined the tax filing status for the Beneficiary is a taxable C-Corporation and obtained and reviewed the federal and state tax filings for 2020. KPMG reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness and developed an expectation of the effective tax rate. Additionally, we reviewed the Part 64 apportionment of operating tax account balances and evaluated the reasonableness of cost allocation methods.

10. **Part 64 Cost Allocations**

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

11. **Affiliate Transactions**

KPMG performed procedures to assess the reasonableness of affiliate transactions that included leased storage facility and office space that occurred during 2020. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the three sample items selected, we reviewed the business purpose of each transaction and determined if the transaction was recorded in accordance with 47 C.F.R. Sections 32.27 and 36.2 and categorized in the appropriate Part 32 accounts.

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

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

13. **Revenue Requirement**

KPMG reviewed the calculation of the Beneficiary's revenue requirement, including assessing the reasonableness and application of cost allocation requirements under 47 C.F.R. Part 64, as well as separations requirements under 47 C.F.R. Part 36 and 47 C.F.R. Part 69, and other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

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

HC2024LR018-F01: 47 C.F.R. § 54.320(b) – Lack of Supporting Documentation: Assets

CONDITION

KPMG utilized a sampling tool to select a sample of 27 random asset items to determine whether the Beneficiary reported its asset account balances accurately for High Cost Program purposes. The Beneficiary was unable to provide sufficient and appropriate supporting documentation for 4 of the 27 sampled asset items as required by FCC Rules[7], which all related to C&WF.

For two of the four unsupported asset items, the Beneficiary was only able to provide a high level work order summary and partial vendor invoices to validate the total CPR asset balances; however, this supporting documentation itself is not sufficient as required by FCC Rules as we could not sufficiently verify the assets and payment. For the remaining two asset items, the Beneficiary was unable to provide any supporting documentation.

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

Account Description	Balance of Unsupported Assets/Contra Assets Reported to USAC	Balance Supported by Testing	Variance for the 12 months ended December 31, 2020
Account 2410: Cable & Wire Facilities	$8,066,668	$8,033,391	($33,277)
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$5,404,824	$5,399,592	($5,232)
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$236,928	$235,810	($1,118)

CAUSE

The Beneficiary did not have adequate processes in place governing the proper documentation and retention of certain asset records to demonstrate to auditors that all assets were adequately supported in accordance with the High Cost Program requirements as prescribed by FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variance(s) noted in the condition above to or from the respective accounts or line items presented in 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 $2,332 as summarized below:

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

Support Type	Monetary Effect & Recommended Recovery
HCL	$1,676
CAF BLS	$656
CAF ICC	N/A
Total	**$2,332**

RECOMMENDATION

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

KPMG also recommends the Beneficiary should enhance and implement policies and procedures relevant to documentation and data retention governing asset records to ensure compliance with FCC Rules and Orders and to support USF fillings. 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

Terral concurs in the findings contained in the report.

HC2024LR018-F02: 47 C.F.R. § 32.2(a), (b) – Misclassified Assets

CONDITION

KPMG utilized a sampling tool to select a sample of 27 random asset items to determine whether the Beneficiary reported its asset account balances accurately for High Cost Program purposes. We noted the Beneficiary misclassified two asset transactions in the CPRs. The two asset transactions were part of a larger contract with a third-party vendor providing telecommunications services to the Beneficiary. The contract included services relating to GSA, COE, and C&WF. The Beneficiary incorrectly classified and reported the total costs, which included GSA and COE, as C&WF rather than allocating the costs proportionately based on the original costs of each asset type and character as prescribed by FCC Rules[8].

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

Account Description	Balance of Sampled Assets/Contra Assets Reported to USAC	Balance Supported by Testing	Variance for the 12 months ended December 31, 2020
Account 2110: General Support Assets	$525,992	$526,582	$590
Account 3100 (2110): Accumulated Depreciation - General Support Assets	$374,361	$374,681	$320
Account 6560 (2110): Depreciation and Amortization Expense – General Support Assets	$28,676	$28,747	$71
Account 2210: Central Office Equipment – Switching	$1,255,739	$1,476,686	$220,947

[8] See 47 C.F.R. § 32.2(a), (b); 47 C.F.R. § 32.2110; 47 C.F.R. § 32.2210; 47 C.F.R. § 32.2230; 47 C.F.R. § 32.2410 (2020) in the criteria section of the report.

Account Description	Balance of Sampled Assets/Contra Assets Reported to USAC	Balance Supported by Testing	Variance for the 12 months ended December 31, 2020
Account 3100 (2210): Accumulated Depreciation - Central Office Equipment – Switching	$1,964,748	$1,988,251	$23,503
Account 6560 (2210): Depreciation and Amortization Expense – Central Office Equipment – Switching	$30,746	$34,142	$3,396
Account 2230: Central Office Equipment – Transmission	$1,421,985	$1,573,187	$151,202
Account 3100 (2230): Accumulated Depreciation - Central Office Equipment – Transmission	$616,627	$707,820	$91,193
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Equipment – Transmission	$33,820	$47,454	$13,634
Account 2410: Cable & Wire Facilities	$8,066,668	$7,693,930	($372,738)
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$5,404,824	$5,289,807	($115,017)
Account 6560 (2410): Depreciation and Amortization Expense – Cable and Wire Facilities	$236,928	$219,827	($17,101)

CAUSE

The Beneficiary did not have adequate processes in place governing the proper classification of asset transactions to demonstrate to auditors that the amounts were properly classified and reported in accordance with the High Cost Program requirements as prescribed by FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variance(s) noted in the condition above to or from the respective accounts or line items on the High Cost 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 $23,975 as summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$18,167
CAF BLS	$5,808
CAF ICC	N/A
Total	**$23,975**

RECOMMENDATION

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

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

BENEFICIARY RESPONSE

Terral concurs in the findings contained in the report.

CRITERIA

Finding	Criteria	Description
#1	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."
#2	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."
#2	47 C.F.R. § 32.2110 (2020)	"This account shall be used by companies to record the original cost of land and support assets of the type and character detailed in Accounts 2111 through 2124."
#2	47 C.F.R. § 32.2210 (2020)	"This account shall be used by companies to record the original cost of switching assets of the type and character detailed in Accounts 2211 through 2212."
#2	47 C.F.R. § 32.2230 (2020)	"This account shall be used by companies to record the original cost of radio systems and circuit equipment of the type and character detailed in Accounts 2231 and 2232."
#2	47 C.F.R. § 32.2410 (2020)	"This account shall be used by companies to record the original cost of cable and wire facilities of the type and character detailed in Accounts 2411 through 2441."

CONCLUSION

KPMG evaluated the Beneficiary's compliance with select FCC rules, 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 two findings as presented in the Audit Results and Recovery Action section.

** This concludes the audit report.**

Attachment G

HC2025LR009

Universal Service Administrative Co.

Available for Public Use

Hartman Telephone Exchange, Inc.

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

USAC Audit No. HC2025LR009

Universal Service
Administrative Co.

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EXECUTIVE SUMMARY

August 1, 2025

Jenna Burrell
Controller
Hartman Telephone Exchanges, Inc.
607 Chief Street
P.O Box 645
Benkelman, NE 69021

Dear Jenna Burrell:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Hartman Telephone Exchange, Inc. (Beneficiary), study area code 371557 disbursements for the year ended December 31, 2024, using the regulations set forth in 47 C.F.R. Parts 51 and 54, and orders governing the federal Universal Service High Cost Support Mechanism, as well as other program requirements (collectively, 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 FCC Rules based on our limited review performance audit.

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

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

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

cc: 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, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	July 2021 – June 2022	July 2023 – June 2024	$214,872
Total			**$214,872**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

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

B. High Cost Program Process
AAD obtained an understanding of the Beneficiary's processes related to the High Cost Program to determine whether the Beneficiary complied with FCC Rules. AAD also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings consistent with based on the dates established by 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 to determine whether the number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.

D. 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: November 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment H Yeoman Telephone Company, Inc.	0	• Not applicable.	$392,274	$0	$0	N/A
Attachment I Wauneta Telephone Company	0	• Not applicable.	$163,590	$0	$0	N/A
Total	**0**		**$555,864**	**$0**	**$0**	

Attachment H

HC2025LR013

Yeoman Telephone Company, Inc.

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

USAC Audit No. HC2025LR013

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EXECUTIVE SUMMARY

September 05, 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 Yeoman Telephone Company, Inc. (Beneficiary), study area code 320839, 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, as well as other program requirements (collectively, FCC Rules). Compliance with Federal Communications Commission (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 scope performance audit.

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 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.

GKA, P.C.

Washington, DC
September 05, 2025

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 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 Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	Calendar Year 2022	Calendar Year 2024	$227,076
Connect America Fund (CAF) Intercarrier Compensation (ICC)	Calendar Year 2022	Calendar Year 2024	$133,980
High Cost Loop (HCL)	Calendar Year 2022	Calendar Year 2024	$31,218
		Total	**$392,274**

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

PROCEDURES
We performed the following procedures:

A. High Cost Program Support Amount

We recalculated the support that the Beneficiary received for each High Cost component and determined that there were no more than nominal differences between the amounts received and those recorded in the High Cost system.[4]

[4] 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[1][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 FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings consistent with the dates established by 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 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.

CONCLUSION

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

This concludes the report.

Attachment I

HC2025LR017

Wauneta Telephone Company

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

USAC Audit No. HC2025LR017

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EXECUTIVE SUMMARY

June 13, 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 Wauneta Telephone Company (Beneficiary), study area code 371597, 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, as well as other program requirements (collectively, FCC Rules). Compliance with Federal Communication Commission (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 scope performance audit.

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 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.

GKA, P.C.

Washington, DC
June 13, 2025

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 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 Support	Data Period	Disbursement Period	Disbursements Audited[1]
Connect America Fund (CAF) Intercarrier Compensation (ICC)	Calendar Year 2022	Calendar Year 2024	$163,590
		Total	**$163,590**

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

PROCEDURES
We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

[1] There were additionally $7,560 in CAF BLS prior period adjustments paid out in calendar year 2024 that were not in scope for audit.
[2] The 2011 base period amounts that were used to calculate the federal High Cost support (FHCS) disbursement for the audit period were not tested and were presumed to be accurate.

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 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 data filings.

D. 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.

<u>Summary of the High Cost Support Mechanism Beneficiary Audit Reports Released: December 2025.</u>

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Attachment J Waverly Hall Telephone, LLC	2	• No significant findings.	$767,538	($68,809)	$0	N
Attachment K Ace Telephone Company of Michigan	15	• No significant findings.	$7,243,101	($214,975)	$0	Partial
Total	**17**		**$8,010,639**	**($283,784)**	**$0**	

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

Attachment J

HC2024LR025

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

WAVERLY HALL TELEPHONE, LLC

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

USAC AUDIT NO. HC2024LR025

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Sikich CPA LLC
333 John Carlyle Street, Suite 500
Alexandria, Virginia 22314
703.836.6701
www.sikich.com

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333 John Carlyle Street, Suite 500
Alexandria, VA 22314
703.836.6701

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Executive Summary

August 27, 2025

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

Dear Ms. Delmar:

Sikich CPA LLC[1] (referred to as "we") was engaged to conduct a limited scope performance audit on the compliance of Waverly Hall Telephone, LLC (Beneficiary), study area code (SAC) 220392 for disbursements made from the federal Universal High Cost (HC) Program during the year ended December 31, 2022. We conducted the audit field work from March 6, 2024 to August 27, 2025.

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

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

Based on the test work performed, our audit disclosed two detailed audit findings (Findings) 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 noncompliance 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 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 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 § 64.901 (2020) - Inaccurate Cost Study Adjustments. The Beneficiary did not accurately calculate investment and expense adjustments made to its Cost Study for HC Program purposes.	($4,632)	($56,950)	$0	($61,582)	$0
Finding No. 2, 47 C.F.R. § 51.917(d)(1)(iii) (2020) and 47 C.F.R. § 54.320(b) (2020) – Inadequate Documentation: State Pool Revenue for Connect America Fund (CAF) Intercarrier Compensation (ICC) Intrastate Revenue. The Beneficiary did not have adequate documentation to support its 2011 Intrastate Terminating Minutes used to determine state pool revenue.	$0	$0	($7,227)	($7,227)	$0
Total Net Monetary Effect	**($4,632)**	**($56,950)**	**($7,227)**	**($68,809)**	**$0**

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

USAC Management Response
USAC management concurs with the audit results for SAC 220392, for HC Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Finding	CAF 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	($4,632)	($56,950)	$0	($61,582)	N/A
Finding No. 2	$0	$0	($7,227)	($7,227)	N/A
Total	**($4,632)**	**($56,950)**	**($7,227)**	**($68,809)**	**N/A**

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

Background and Program Overview

Background
The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in the State of Georgia. As of 2020, the Beneficiary is wholly owned by USConnect Acquisitions II, Inc., which is wholly owned by USConnect Holdings, Inc. The services offered by the Beneficiary are local telephone service, access to long-distance telephone service, cable television (CATV), retail internet service, and other telecommunications services.

USConnect Holdings, Inc, the parent organization, provides the Beneficiary payroll services and allocates related expenses among the common subsidiaries based on percentages of net plant balances and operating expenses. These services and expenses are billed to the Beneficiary as a management fee. Additionally, the Beneficiary holds an affiliation with Waverly Hall Communications (WHC), a North Carolina corporation for which it provides broadband loop services based on tariff rates.

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

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

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

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

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

Objectives, Scope, and Procedures

Objective

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

Scope

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

HC Support	Data Period	Disbursement Period	Disbursements Audited
CAF BLS	2020	2022	$578,394
HCL	2020	2022	$38,592
CAF ICC	2019-2021	2022	$150,552
		Total	**$767,538**

Procedures

We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Fixed Assets

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

D. Operating Expenses

We obtained and examined 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 sampled expenses and examined invoices to support the existence of the general support, corporate operations, plant-specific, and plant non-specific expenses.

E. Revenues

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

F. Affiliate Transactions

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

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

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 64.901 (2020) - Inaccurate Cost Study Adjustments

Condition
Per 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".[3] We obtained and examined the Beneficiary's supporting documentation for nine cost study adjustments for the filing period ending on December 31, 2020 to determine whether the Beneficiary accurately reported amounts for HC Program purposes.

Upon examination of supporting documentation, we identified inaccuracies in the calculations of the following adjustments made to the Cost Study for the filing period ending on December 31, 2020, as follows:

- **Investment Adjustment 3 and Expense Adjustment 7:** The Beneficiary calculated investment adjustment 3 and expense adjustment 7 for the purpose of adjusting deferred taxes for amounts pertaining to goodwill. Upon examination of balances used in the calculation for removal of goodwill and on the tax depreciation schedule, an error was noted in the rate change impact for goodwill. The original rate change impact balance used was $166,552 while the supported rate change balance was $194,354.

In the table below, we summarize the effect of the inaccurate reporting of the $166,552 on account balances reported for HC Program purposes.

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Deferred Taxes (Account 4340)	$492,150	$325,598	$166,552
Land and Support Deferred Tax (Account 4340-2110)	$46,073	$30,481	$15,592

[3] *See* 47 C.F.R § 64.901(b)(3)(ii) (2020).

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Deferred Taxes COE Switching (Account 4340-2210)	$24,017	$15,889	$8,128
Deferred Taxes COE Transmission (Account 4340-2230)	$110,690	$73,231	$37,459
Cable and Wire Facilities Deferred Taxes (Account 4340-2410)	$311,370	$205,997	$105,373
Operating Taxes (Account 7200)	($81,069)	$85,485	($166,554)

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring to ensure the rate change impact for goodwill relating to deferred and operating taxes (Part 32 account 4340 and 7200) are properly calculated, recorded and reported for HC Program purposes. Specifically, the Beneficiary stated that "There was a linking error in the spreadsheet used to calculate the deferred tax expense and liability balances."[4]

Effect
We calculated the monetary effect to the Beneficiary's HC Program filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances — as stated in the "Recalculation of Part 64 Balances," table above. We summarized the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2022, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($4,632)
HCL	($56,950)
CAF ICC	$0
Total	**($61,582)**[5]

Recommendation
We recommend the Beneficiary establish a process to review the cost study adjustment calculations and resulting balances reported to USAC, to ensure the accuracy of data used in its HC Program filing.

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

[4] Per the Beneficiary's response to the Exception Summary received January 10, 2025.
[5] *Id*. at footnote 2.

Beneficiary Response
The Beneficiary agrees with the finding. There was a linking error in the spreadsheet used to calculate the deferred tax expense and liability balances. This issue did not occur in the years before or since the finding. We have established review procedures for the tax calculations in upcoming USF filings.

Sikich Response
Based on the Beneficiary response above, our position on this finding has not changed.[6]

<u>Finding No. 2, 47 C.F.R. § 51.917(d)(1)(iii) (2020) and 47 C.F.R. § 54.320(b) (2020) – Inadequate Documentation: State Pool Revenue for CAF ICC Intrastate Revenue</u>

Condition
Per 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."[7] We obtained and examined the Beneficiary's billing reports, National Exchange Carrier Association's (NECA's) EC2060-L Report, and CAF ICC data to determine whether the Beneficiary reported accurate Intrastate Terminating Switched Access Services Revenue (Intrastate Revenue) for Program Year (PY) 2019-2020 and PY 2020-2021.

From our review of the Beneficiary's state pool revenue calculation methodology, we noted the following:

FCC Rules prescribe the amount a rate-of-return carriers may recover.[8] The Beneficiary did not provide documentation to support the 2011 Intrastate Terminating Minutes used to calculate the state pool revenue of $9,636 in PY 2019-2020 and $4,818 in PY 2020-2021.[9] We summarized the effect of the unsupported 2011 Intrastate Terminating Minutes on the calculation of Intrastate Revenue in the table below.

Recalculation of Intrastate Revenue			
PY	Intrastate Revenue Reported (A)	Intrastate Revenue Supported (B)	Variance Overstatement/ (Understatement) (A-B)
2019-2020	$11,418	$1,782	$9,636
2020-2021	$6,187	$1,369	$4,818

Cause
The Beneficiary did not have adequate data retention procedures in place to ensure it retained records sufficient to support the 2011 Intrastate Terminating Minutes used to calculate the state

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[6] Sikich did not verify that the linking error did not occur in prior or subsequent disbursement periods as they are outside the scope of this audit.
[7] *See* 47 C.F.R § 54.320(b) (2020).
[8] *See* 47 C.F.R § 51.917(d)(1)(iii) (2020).
[9] State pool revenue was only reported in the periods of July 2020-December 2020 in PY 2020-2021.

pool revenue for 10 years from the time of receipt of the funding for the filing in scope, as required by FCC rules.[10] Specifically, with regard to the 2011 Intrastate Terminating Minutes, the Beneficiary stated "The Georgia Public Utilities Commission (PUC)[11] did not, and could not, provide any documentation to support the frozen Intrastate minutes used in the frozen state revenue requirement."

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by adjusting the CAF ICC algorithm to subtract the overstated account balances as stated in the "Recalculation of Intrastate Revenue" table above—for the period ending December 31, 2020. We summarized the impact of this finding relative to disbursements made from HC Program for the 12-month period ending December 31, 2022, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$0
HCL	$0
CAF ICC	($7,227)
Total	**($7,227)**[12]

Recommendation

We recommend the Beneficiary obtain and retain supporting source documentation for the 2011 Intrastate Terminating Minutes used to calculate state pool revenues reported.

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

Beneficiary Response

The Beneficiary agrees with the finding. The Georgia PUC did not, and could not, provide any documentation to support the Intrastate minutes used in the frozen state revenue requirement. The Georgia Switched Access fund was eliminated in December 2020.

Sikich Response

Based on the Beneficiary response above, our position on this finding has not changed.

[10] *Id*. at footnote 8.
[11] The Georgia PUC provided the Beneficiary with state funds for the FCC preemption of terminating access that were included in the reporting of CAF ICC Intrastate Revenue from July 1, 2019 to June 30, 2020 submitted for PY 2021 – 2022 and also from July 2020 to December 2020 submitted for PY 2022 – 2023.
[12] *Id*. at footnote 2.

Criteria

Finding	Criteria	Description
1	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

Finding	Criteria	Description
		directly assigned or attributed to regulated and nonregulated activities. (4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed. (c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.
2	47 C.F.R. § 51.917(d)(1)(iii) (2020)	(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.
2	47 C.F.R. § 54.320(b) (2020)	(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at

Finding	Criteria	Description
		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.

Sikich CPA LLC

Attachment K

HC2023LR027

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

ACE TELEPHONE COMPANY OF MICHIGAN, INC.

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

USAC AUDIT NO. HC2023LR027

SIKICH®

Sikich CPA LLC
333 John Carlyle Street, Suite 500
Alexandria, Virginia 22314
703.836.6701
www.sikich.com

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333 John Carlyle Street, Suite 500
Alexandria, VA 22314
703.836.6701

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Executive Summary

October 9, 2025

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

Dear Ms. Delmar:

Sikich CPA LLC[1] (referred to as "we") was engaged to conduct a limited scope performance audit on the compliance of Ace Telephone Company of Michigan, Inc. (Beneficiary), study area codes (SAC) 310704 and 310669, for disbursements made from the federal Universal Service High Cost (HC) Program during the year ended December 31, 2021. We conducted the audit field work from March 07, 2023, to October 9, 2025.

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

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

Based on the test work performed, our audit disclosed eight detailed audit findings for SAC 310704 and seven detailed audit findings for SAC 310669, as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a "finding" is a condition that shows

[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.

evidence of non-compliance with FCC Rules that were in effect during the audit period. Sikich's determination is based on the circumstances in 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 audit disclosed that the Beneficiary did not comply with FCC Rules, as set forth in the eight detailed audit findings for SAC 310704 and seven detailed audit findings for SAC 310669 discussed below.

SAC 310704

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 32. 2002 (2019), 47 C.F.R. § 32. 1220(c) (2019), and 47 C.F.R. § 36.121(b)(c)(d) (2019) – Inaccurate Reporting of COE Assets. The Beneficiary improperly classified its assets not in use, which impacted its joint-use and wideband allocations of the Central Office Equipment (COE) common cost distribution.	$23,607	($2,901)	$0	$20,706	$20,706
Finding No. 2, 47 C.F.R. § 54.320(b), 47 C.F.R § 32.27, and 47 C.F.R § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Related Party Transactions. The Beneficiary did not maintain adequate documentation to support the sampled related-party	$2,614	$18,083	$0	$20,697	$20,697

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

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
transactions and used inaccurate data when allocating costs.					
Finding No. 3, 47 C.F.R. §32.2(a)(b) (2019) – Misclassification of Expenses. The Beneficiary misclassified seven engineering expense transactions to Part 32 Engineering Expense account 6535 instead of capitalizing them to Part 32 Cable and Wire Facilities (CWF) account 2410.	$7,382	$3,092	$0	$10,474	$10,474
Finding No. 4, 47 C.F.R. §54.903(a)(3)(4) (2019) – Inaccurate Reporting of Average Monthly Broadband-Only Loops. The Beneficiary did not accurately calculate the Average Monthly Broadband-Only Loop count that it reported on its FCC Form 509.	$5,670	$0	$0	$5,670	$5,670
Finding No. 5, 47 C.F.R. §32.2000(g) (2019) – Inaccurate Reporting of Accumulated Depreciation Balance. The Beneficiary's accumulated depreciation account 3124.310 reflected an abnormal debit balance.	($1,000)	($594)	$0	($1,594)	$0
Finding No. 6, 47 C.F.R. §32.4340 (2019) – Inaccurate Cost Study Adjustment Deferred Taxes. The Beneficiary did not include all applicable affiliates when allocating its deferred taxes.	($7,708)	($4,602)	$0	($12,310)	$0
Finding No. 7, 47 C.F.R. § 54.320(b) and 47 C.F.R. § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Part 64 Allocations.	($29,951)	($1,040)	$0	($30,991)	$0

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
The Beneficiary did not accurately calculate its Part 64 allocations, such as the land and building non-regulated factor, plant investment allocation from Minnesota, and general support non-regulated factor.					
Finding No. 8, 47 C.F.R. § 54.7(a) (2019), FCC 15-133 (2015), and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included 48 unallowable expense transactions in its HC Program filing that were not related to the provision, maintenance, and upgrade of telecommunications facilities.	($99,853)	$3,898	$0	($95,955)	$0
Total Net Monetary Effect SAC 310704	**($99,239)**	**$15,936**	**$0**	**($83,303)**	**$57,547**

SAC 310669

Audit Results	Monetary Effect				Recommended Recovery[3]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 9, 47 C.F.R. § 54.903(a)(3)(4) (2019) – Inaccurate Reporting of Average Monthly Broadband-Only Loops. The Beneficiary did not accurately calculate the Average Monthly Broadband-	$11,256	$0	$0	$11,256	$11,256

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

Audit Results	Monetary Effect				Recommended Recovery[3]
	CAF BLS	HCL	CAF ICC	Total	
Only Loop count that it reported on its FCC Form 509.					
Finding No. 10, 47 C.F.R. § 54.7(a) (2019), FCC 15-133 (2015), and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included 12 expense transactions in its HC Program filing that were not related to the provision, maintenance, and upgrade of telecommunications facilities.	$6,001	$1,469	$0	$7,470	$7,470
Finding No. 11, 47 C.F.R. § 54.320(b), 47 C.F.R § 32.27, and 47 C.F.R § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Related Party Transactions. The Beneficiary did not maintain adequate documentation to support the sampled related-party transactions and used inaccurate data when allocating costs.	($4,054)	($943)	$0	($4,997)	$0
Finding No. 12, 47 C.F.R. §36.121(b)(c)(d) (2019) – Inaccurate Reporting of COE Assets. The Beneficiary used incorrect data in calculating its COE common distribution, including errors in its category 4.13 balance, category 4.23 balance, Consumer Broadband-Only	$8,209	($25,725)	$0	($17,516)	$0

Audit Results	Monetary Effect				Recommended Recovery[3]
	CAF BLS	HCL	CAF ICC	Total	
Loops (CBOL) count, and wideband allocation.					
Finding No. 13, 47 C.F.R. § 32.2(a)(b) (2019) – Improper Recording of an Asset. The Beneficiary improperly recorded a CWF asset to CWF Accumulated Depreciation account 3100-2410 instead of recording to CWF Assets account 2410.	($15,091)	($3,370)	$0	($18,461)	$0
Finding No. 14, 47 C.F.R. § 54.320(b) and 47 C.F.R. § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Part 64 Allocations. The Beneficiary did not accurately calculate and adequately support its Part 64 Competitive Local Exchange Carrier (CLEC) allocation factor and general support non-regulated factor.	($28,114)	($6,648)	$0	($34,762)	$0
Finding No. 15, 47 C.F.R. § 32.4340 (2019) – Inaccurate Cost Study Adjustment Deferred Taxes. The Beneficiary did not include all applicable affiliates when allocating its deferred taxes.	($55,158)	($19,504)	$0	($74,662)	$0

Audit Results	Monetary Effect				Recommended Recovery[3]
	CAF BLS	HCL	CAF ICC	Total	
Total Net Monetary Effect SAC 310669	**($76,951)**	**($54,721)**	**$0**	**($131,672)**	**$18,726**
Total Net Monetary Effect (SAC 310704 and SAC 310669)	**($176,190)**	**($38,785)**	**$0**	**($214,975)**	**$76,273**

USAC Management Response
USAC management concurs with the audit results for SACs 310704 and 310669, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Finding	CAF BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
SAC 310704					
Finding No. 1	$23,607	($2,901)	$0	$20,706	N/A
Finding No. 2	$2,614	$18,083	$0	$20,697	N/A
Finding No. 3	$7,382	$3,092	$0	$10,474	N/A
Finding No. 4	$5,670	$0	$0	$5,670	N/A
Finding No. 5	($1,000)	($594)	$0	$(1,594)	N/A
Finding No. 6	($7,708)	($4,602)	$0	$(12,310)	N/A
Finding No. 7	($29,951)	($1,040)	$0	$(30,991)	N/A
Finding No. 8	($99,853)	$3,898	$0	$(95,955)	N/A
SAC 310669					
Finding No. 9	$11,256	$0	$0	$11,256	N/A
Finding No. 10	$6,001	$1,469	$0	$7,470	N/A
Finding No. 11	($4,054)	($943)	$0	($4,997)	N/A
Finding No. 12	$8,209	($25,725)	$0	($17,516)	N/A
Finding No. 13	($15,091)	($3,370)	$0	($18,461)	N/A
Finding No. 14	($28,114)	($6,648)	$0	($34,762)	N/A
Finding No. 15	$55,158	$19,504	$0	($74,662)	N/A
Total	**($176,190)**	**($38,785)**	**$0**	**($214,975)**	N/A

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

Background and Program Overview

Background

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates primarily in Michigan and is a 100 percent-owned subsidiary of Ace Telephone Association. The services offered by the Beneficiary are local access services, internet, and video services. For the 2019 data period, the Beneficiary operated under multiple SACs that engaged in intercompany transactions and allocation[4] of shared costs with other SACs of Ace Telephone Co of Michigan, Ace Telephone Association and Ace Link Telecommunications, an additional subsidiary of Ace Telephone Association.

In July 2021, the following SACs under Ace Telephone of Michigan Inc., merged into one for disbursement purposes, expanding the Beneficiary 2021 disbursements to include: Michigan – SAC 310704, Allendale – SAC 310669, Drenthe – SAC 310692, and Old Mission – SAC 310777. As a result of the merger, USAC included Allendale – SAC 310669 in the scope of our audit, along with Michigan – SAC 310704, increasing the total SACs in the scope of our audit to two and the disbursement coverage to approximately 73% of total disbursed to all four SACs, based on disbursement amounts prior to the merger.

Program Overview

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

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

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

- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (ICC) Support:** CAF ICC support is available to

[4] Allocation based on customers' counts as follows: Michigan - 5,444, Allendale - 7,619, Ace Telephone Association – 19,802, and Ace Link Telecommunications - 1,947.

rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's eligible recovery begins with its base period revenue. A rate-of-return carrier's base period revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Program Year (PY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The base period revenue for rate-of-return carriers is reduced by 5 percent in each year beginning with the first year of the reform. A rate-of-return carrier's eligible recovery is equal to the adjusted base period revenue for the year in question, less—for the relevant year of the transition—the sum of: (1) projected terminating intrastate switched access revenue, (2) projected interstate switched access revenue, and (3) projected net reciprocal compensation revenue.

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

Objectives, Scope, and Procedures

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

Scope
Due to the merger of SAC 310704 with SACs 310692, 310669, and 310777 on July 1, 2021, it was necessary to expand the scope of the audit to include SACs 310704 and 310669. The table below summarizes the HC Program support included in the audit scope for SACs 310704 and 310669.

HC Support	CAF BLS	HCL	CAF ICC	Total	Disbursements Audited**
Data Period	2019	2019	2018-2020		
Disbursement Period	2021	2021	2021		
Disbursements:					
SAC 310669*	$1,732,872*	$250,596*	$246,018*	$2,229,486	**$4,766,030**
SAC 310692*	$653,604*	$72,486*	$29,358*	$755,448	
SAC 310704	$4,916,982	$842,960	$702,114	$6,462,056	**$2,477,071**
SAC 310777*	$528,372*	$191,064*	$31,080*	$750,516	
Totals	**$7,831,830**	**$1,357,106**	**$1,008,570**	**$10,197,506**	**$7,243,101**

* Current year disbursements merged into SAC 310704 disbursements for payment as of July 1, 2021.
** Disbursements audited by SAC is an estimate of what a full year of disbursements would have been based on first six months of payments.

Procedures

We performed the following procedures:

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

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

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

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

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

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

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

Detailed Audit Findings

SAC 310704

Finding No. 1, 47 C.F.R. § 32.2002 (2019), 47 C.F.R. § 32.1220(c) (2019), and 47 C.F.R. § 36.121(b)(c)(d) (2019) - Inaccurate Reporting of COE Assets

Condition
We obtained and examined the Beneficiary's COE common distribution and its CPRs for the filing period ending December 31, 2019, to determine whether the Beneficiary classified its assets correctly and whether it properly separated COE assets in categories inclusive of equipment not assigned to a specific category (e.g., common power equipment), as well as whether it accurately reported the data for HC Program purposes.

We examined the supporting documentation identified above and noted the following errors:

COE Spares: The Beneficiary did not properly book assets that were not in use into Part 32 Inventory Account 1220. We reviewed the Beneficiary's CPR for COE assets and noted that the Beneficiary used accounts 2212.99 (digital electronic switching investment) and 2232.99 (circuit equipment investment) for assets not currently in service that serve as spares or backups for in-service equipment.

The Beneficiary's CPR lacked details such as dates to determine how long these spares/backups were held in these accounts or if, or when, the spares/backups were used. Due to lack of usage details, we reclassified the spare/backups as inventory under Part 32 account 1220. In addition, the reclassification of the spares made for the necessity to update the allocations within the COE categorization and are explained in the following three bullets.

- **Joint-Use Allocation:** The Beneficiary developed a joint-use allocation within its common distribution of COE assets for category 4.11 and category 4.13. We reviewed the calculation for the joint-use allocation and noted that the Beneficiary included accounts 2212.99 and 2232.99 in the allocation total category balance of $2,481,219. Because we reclassified the assets in accounts 2212.99 and 2232.99 to Part 32 account 1220 based on the observation noted above, we updated the total category balance to $1,538,825 to be allocated as joint-use to categories 4.11 and 4.13.

- **Wideband Allocation:** The Beneficiary developed a wideband allocation based on the balances for category 4.13, category 4.22 and category 4.23 of its COE assets. Because we updated the joint-use category balance as noted above, we updated the unadjusted total balance for category 4.13 from $2,313,467.51 to $2,017,766 and the unadjusted total balance for category 4.23 from $1,539,724 to $1,533,892 which in turn changed the wideband allocation.

- **Power & Common (P&C) Allocation:** As a result of all the above bullets, the P&C allocation was updated because it is based on the category balances after the joint-use and wideband allocations are applied.

Below, we summarize the revisions we made to the Beneficiary's Part 64 Balances and COE categorization as a result of the misclassification of spares and the Beneficiary's errors in its COE common distribution for the filing period ending December 31, 2019, including our updates to the total category 4.11, 4.13, 4.22, and 4.23 balances reported for HC Program purposes.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Inventories (Account 1220)	$191,261	$1,190,437	($999,176)
COE Switching (Account 2210)	$495,754	$503,381	($7,627)
COE Transmission (Account 2230)	$6,394,435	$5,387,632	$1,006,803
Accumulated Depreciation of COE Switching (Account 3100-2210)	$494,647	$502,257	($7,610)
Accumulated Depreciation of COE Transmission (Account 3100-2230)	$5,397,034	$4,547,271	$849,763
Deferred Taxes COE Switching (Account 4340-2210)	$31,410	$31,893	($483)
Deferred Taxes COE Transmission (Account 4340-2230)	$405,134	$341,346	$63,788
Depreciation Expense COE Switching Expense (Account 6560-2210)	$81	$82	($1)
Depreciation Expense COE Transmission Expense (Account 6560-2230)	$647,798	$545,802	$101,996

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
COE Switching Expense (Account 6210)	$77,507	$78,699	($1,192)
COE Transmission Expense (Account 6230)	$128,221	$108,033	$20,188

Impact to COE Switching Categorization for 2019[5]			
Category	Part 36 Cost Study as Reported (A)	Sikich Audited Balance (B)	Overstatement (A-B)
Category 3 – Local Switching	$536,445	$544,072	($7,627)
Total	**$536,445**	**$544,072**	**($7,627)**

Impact to COE Transmission Categorization for 2019[6]			
Category	Part 36 Cost Study as Reported (A)	Sikich Audited Balance (B)	Overstatement (A-B)
Category 4.11 -Wideband-Line	$1,816,349	$1,092,680	$723,669
Category 4.13 - Joint MSG	$2,634,996	$2,334,084	$300,912
Category 4.13 - PL & Local	$3,909	$3,463	$446
Category 4.22 - PL	$1,667,396	$1,685,358	($17,962)
Category 4.23 - PL & Local	$134,027	$134,027	$0
Category 4.3 - Joint (x/WATS)	$17,034	$17,296	($262)
Total	**$6,273,711**	**$5,266,908**	**$1,006,803**

Cause

The Beneficiary stated:

> *2232.99 account was created for any spare COE or carrier cards with the concern of obsolescence of parts in inventory that would need to be expensed out if not used and to streamline the process of accounting for repairs to critical equipment. Items are kept stocked in the warehouse or tech locations. The items are spares for in service equipment. When a new piece of equipment is put in service, it is determined by net ops if*

[5] Beneficiaries only report balances for COE switching categorization for 2021 HC Program disbursements as of December 31, 2019.
[6] Beneficiaries only report balances for COE transmission categorization for 2021 HC Program disbursements as of December 31, 2019.

spares are to be stocked and how many to stock. These stocked levels are deemed as necessary for future installations or "critical" replacements. If replaced spares equipment is not obsolete or disposed of, they are returned to the 2232.99 account.[7]

The Beneficiary applied the same reasoning and concept to account 2212.99.

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it reported COE assets not currently in use as inventory. As a result, we were required to update the Beneficiary's common distribution of COE assets.

Effect
We calculated the monetary effect to the Beneficiary's HC Program filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated balances and add the understated balances in the "Recalculation of Part 64 Balances", "Impact to COE Switching Categorization for 2019", and "Impact to COE Transmission Categorization for 2019" tables above. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$23,607
HCL	($2,901)
CAF ICC	$0
Total	**$20,706**

Recommendations
We recommend that:

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

2. The Beneficiary implement an adequate system to ensure that it accurately reports total COE assets in its HC Program filing.

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

Beneficiary Response
We disagree that *"The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it reported COE assets not currently in use as inventory."* Support was provided outlining the process used to move these assets and ensure they are retired in a timely manner. In addition, Part 32 rules were cited in support of this practice and the Beneficiary's auditor also supported treating these assets in this manner.

[7] Per the Beneficiary's response to inquiry #65 on the Audit Inquiries Listing.

While we disagree with the above, accounting procedures will be put in place to correct this issue going forward.

Sikich Response
The Beneficiary disagrees with our finding, noting that they provided a thorough explanation of how spares are tracked and retired promptly. Although we did not object to the retirement of obsolete assets, our concern lies with the accounting of unused assets in depreciable accounts, since depreciation should only be calculated on assets actively used for HC purposes. The Beneficiary's description confirms that spares function as inventory, explaining that when a new asset is activated, they determine the required number of spares for ongoing use and store them in the warehouse. Additionally, the Part 32[8] rules referenced by the Beneficiary pertain to accounts 2231 Radio Systems and 2351 Public telephones, which do not appear in the Beneficiary's trial balance. Therefore, our position on this finding has not changed.

<u>Finding No. 2, 47 C.F.R. § 54.320(b), 47 C.F.R § 32.27, and 47 C.F.R § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Related Party Transactions</u>

Condition
We obtained and examined the Beneficiary's general ledger, lease agreements, investment and plant expense balance, access line count report, customer service count report, and employee listing report and tested a non-statistical sample of 12 affiliate transactions totaling $91,779 to determine whether the Beneficiary accurately calculated the shared expenses allocated between affiliates for HC Program purposes for the filing period ending on December 31, 2019.

Upon examining the supporting documentation for the related-party transaction samples, we identified the following instances of inadequate documentation or errors:

- **Inadequate Documentation for Related Party Switching Agreement (Sample 1):** The Beneficiary could not provide any support as to how it calculated the payments/rates, booked in Part 32 account 6210, included in the switching agreement provided between SAC 310704 and SAC 310669.

- **Inadequate Documentation of Allocation for Ace of Michigan's Toll Revenue due to Minnesota (Samples 2-3 and 12):** The Beneficiary could not provide any support to justify the basis for the monthly allocation of $7,000 in toll revenue that it allocated into Part 32 accounts 5082, 5084, and 6728 within the Toll Revenue allocation provided.

- **Inaccurate Data Used to Develop Allocation Factors for Common Costs (Samples 4, 8, and 10-11):** The Common Costs allocation documentation we reviewed for the customer service account factor and the investment and plant expense factor used to allocate common expenses from the parent company did not tie to the values used in the calculation the Beneficiary provided. We therefore could not verify the Beneficiary's allocation factors provided, as the Beneficiary could not provide support for how they were derived. Therefore, new allocation factors were derived by the Beneficiary and we

[8] 47 C.F.R §32.2231 and 47 C.F.R §32.2351

performed a full 12-month recalculation using verified balances from support impacting Part 32 accounts General Support Expenses (account 6120) and General and Administrative (account 6720).

As a result of the inadequate documentation and inaccuracies we identified in the Beneficiary's related-party transaction samples applicable to the filing period ending on December 31, 2019, we noted the following impact on account balances the Beneficiary reported for HC Program purposes:

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
General Support Expense (Account 6120)	$288,665	$284,679	$3,986
COE Switching Expense (Account 6210)	$77,507	$15,037	$62,470
General and Administrative Expense (Account 6720)	$544,217	$522,465	$21,752

Cause

1. **Inadequate Documentation for Related-Party Switching Agreement (Sample 1):** In response to our inquiry, the Beneficiary stated that it reviewed the pricing of other entities that offered similar services and, if the pricing appeared to be reasonable, the Beneficiary mirrored the other entities' pricing. The Beneficiary did not maintain any support other than the agreement itself.

2. **Inadequate Documentation of Allocation for Ace of Michigan's Toll Revenue due to Minnesota (Samples 2-3 and 12):** The Beneficiary based its allocation on a 1987 estimate of $90,567 that was rounded to an allocation of $7,000 per month; the Beneficiary then further allocated this monthly total to the Part 32 accounts previously mentioned based on revenue which is not cost-causative in nature.[9]

3. **Inaccurate Data Used to Develop Allocation Factors for Common Costs (Samples 4, 8, and 10-11):** As noted above, the documentation we reviewed for the customer service account factor and the investment and plant expense factor that the Beneficiary used to allocate common expenses from the parent company did not tie to the values used in the calculation the Beneficiary provided.

4. The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that data inputs such as account balances and annual values of customer service accounts were based on updated information and accurate calculations.

[9] Per the Beneficiary's response to inquiry #64c on the Audit Inquiries Listing.

With regard to the samples for which the Beneficiary did not provide adequate support, the Beneficiary stated that the issue occurred as a result of "Old agreements and inadequate support documentation."[10]

Effect
We calculated the monetary effect to the Beneficiary's HC Program filing by subtracting the overstated balances for the filing period as of December 31, 2019, for the following accounts: $3,986 from account 6120, $62,470 from account 6210, and $21,752 from account 6720. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$2,614
HCL	$18,083
CAF ICC	$0
Total	**$20,697**

Recommendations
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 that describe how it will ensure it records transactions to the proper Part 32 account.

3. The Beneficiary ensure that it accurately calculates and adequately supports allocations for balances submitted for HC Program purposes for 10 years from the time of receipt of the funding, as required by FCC Rules.[11]

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

Beneficiary Response
We agree with this finding. Affiliate agreements have been reviewed and a process has been put into place to ensure related documentation is maintained and to review agreement on an annual basis.

[10] Per the Beneficiary's exception summary response, received on February 21, 2025.
[11] See 47 C.F.R § 54.320(b) (2019).

Sikich Response
Our position on this finding has not changed.

Finding No. 3, 47 C.F.R. §32.2(a)(b) (2019) – Misclassification of Expenses

Condition
We obtained and examined the Beneficiary's general ledger and cost study balances and tested a non-statistical sample of 100 expense transactions (totaling $156,116) for the filing period ending on December 31, 2019, to determine whether the Beneficiary recorded transactions to the proper Part 32 accounts for HC Program purposes.

We examined the supporting documentation for the 100 sampled expense transactions and determined that the Beneficiary misclassified one expense transaction to Part 32 engineering expense account 6535 instead of capitalizing the expense to an asset account. The supporting documentation for this transaction identified it as charges for staking sheets for a fiber-to-the-premise (FTTP) project; however, the Beneficiary recorded the transaction as an engineering expense. We performed an additional general ledger review and identified six other similar transactions that the Beneficiary recorded as expenses but that, according to the invoice descriptions, it should have capitalized instead. Details of the seven total transactions are as follows:

Nature of Transaction	Original Recorded General Ledger Account	Correct General Ledger Account	Value of Sample with Exception[12]
Time and Expense Staking	Engineering expense (Account 6535)	CWF (Account 2410)	$6,776
Door Hanges/Inspectors for FTTP	Engineering expense (Account 6535)	CWF (Account 2410)	$1,260
Residents/Inspectors for FTTP	Engineering expense (Account 6535)	CWF (Account 2410)	$2,977
As Built Records	Engineering expense (Account 6535)	CWF (Account 2410)	$793
As Built Records	Engineering expense (Account 6535)	CWF (Account 2410)	$2,203
Right of Way Discovery and Research for FTTP	Engineering expense (Account 6535)	CWF (Account 2410)	$58
Consulting for FTTP	Engineering expense (Account 6535)	CWF (Account 2410)	$163

Below, we summarize the effect of the Beneficiary's misclassification of the seven expenses to Part 32 account 6535 instead of capitalizing them to Part 32 account 2410:

[12] In this report, Sikich identifies an "exception" when, based on a review of the 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.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
CWF (Account 2410)	$21,909,344	$21,923,573	($14,229)
CWF Accumulated Depreciation (Account 3100-2410)	$13,731,742	$13,732,069	($327)
CWF Deferred Taxes (Account 4340-2410)	$1,388,116	$1,388,395	($279)
CWF Depreciation Expense (Account 6560-2410)	$1,072,678	$1,073,005	($327)
Network Operations Expense (Account 6530)	$651,171	$636,942	$14,229
CWF (DL700)	$21,909,344	$21,923,573	($14,229)
Category 1 Investment for CWF (DL710)	$9,806,931	$9,813,329	($6,398)

Impact to CWF Categorization for 2019[13]			
Category	**Part 36 Cost Study as Reported (A)**	**Sikich Audited Balance (B)**	**(Understatement) (A-B)**
Category 1 – 1.1 Intra PL & WATS	$9,576	$9,582	($6)
Category 1 - 1.2 Inter PL & WATS	$4,788	$4,791	($3)
Category 1 – 1.3 Jointly Used	$9,680,878	$9,687,267	($6,389)
Category 2 - WB Data Only Loop	$10,556,081	$10,563,047	($6,966)
Category 3 - WB PL	$932,760	$933,376	($616)
Category 3 - PL & Local x/WB	$92,635	$92,696	($61)
Category 4 - Joint (x/WATS)	$284,019	$284,207	($188)
Total	**$21,560,737**	**$21,574,966**	**($14,229)**

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it properly recorded assets and expenses to the correct general ledger accounts for HC Program purposes. The Beneficiary stated that this issue occurred because "Services expensed due to WO creation timing."[14] To clarify, the planning costs for

[13] For Part 64, the Beneficiary reports CWF balances for 2021 HC Program disbursements as of December 31, 2019. However, for Part 36, the Beneficiary reports the balances as an average of the current and prior data period balances by CWF category. As a result, the balances reported for Category 1 in Table "Recalculation of Part 64 Balances" and Table "Impact to CWF Categorization for 2019" differ.

[14] Per the Beneficiary's exception summary response, received on February 21, 2025.

capitalized projects were expensed due to the projects not being approved at the time and a workorder for the project was not yet created. The Beneficiary did not go back and reclassify the associated expenses of the capitalized projects to the applicable workorders. The Beneficiary stated, "The Copemish items for staking should have been charged to workorder but due to project not yet approved, reallocating prior expenses back to the workorder was not done."[15]

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

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$7,382
HCL	$3,092
CAF ICC	$0
Total	**$10,474**

Recommendations
We recommend that:

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

2. The Beneficiary implement policies and procedures to ensure it classifies its expense transactions to the proper Part 32 accounts, in compliance with FCC Rules.

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

Beneficiary Response
We agree with this finding. The expense instead of capitalization of these transactions occurred due to the timing of when work orders were open and closed. Procedures have been put into place to prevent this from occurring in the future.

Sikich Response
Our position on this finding has not changed.

[15] Per the Beneficiary's response to inquiry #63e on the Audit Inquiries Listing.

<u>Finding No. 4, 47 C.F.R. §54.903(a)(3)(4) (2019) – Inaccurate Reporting of Average Monthly Broadband-Only Loops</u>

Condition

We obtained and examined the Beneficiary's FCC Form 509, National Exchange Carrier Association (NECA) EC2060-L Report, Calculation of the Average Monthly Broadband-Only Loops and Billing Report for Consumer Broadband-Only Loops (CBOL), to determine whether the Beneficiary accurately calculated and reported its Average Monthly Broadband-Only Loops for HC Program purposes.

We found that the Beneficiary did not accurately report its Average Monthly Broadband-Only Loops on its FCC Form 509. We recalculated the Beneficiary's Average Monthly Broadband-Only Loops by compiling the actual count activity for the period from January through December 2019 and dividing this count by 12 months, for a total of 2,141 loops (25,690 loops / 12 months = 2,141). The following tables summarize the difference between our recalculation and the count in the Beneficiary's Form 509 and the financial impact of this difference:

Average Monthly Broadband-Only Loops	For Data Period 2019
Reported on FCC Form 509	2,119
Recalculated by Sikich	2,141
Difference	22

Line	FCC Form 509	As Reported FCC Form 509 Filed[16] (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
7	2019 Common Line Voice Revenue Requirement (Line 5 + Line 6)	$705,213	$705,213	$0
11	2019 SLC Revenue (Line 8 + Line 9 - Line 10)	$158,982	$158,982	$0
12	2019 End User ISDN Port Revenue	$764	$764	$0
13	2019 Special Access Surcharge Revenue	$0	$0	$0
14	2019 CAF BLS Voice ** (Line 7 - Line 11 - Line 12 - Line 13)	$545,467	$545,467	$0
15	2019 Consumer Broadband-Only Loop RRQ	$2,253,573	$2,253,573	$0

[16] The source for the "as reported" amounts comes from NECA's pdf version of the Form 509. Some as reported balances on the PDF of the submitted Form 509 do not appear to be formula driven as they do not calculate when applying the formulas noted for specific lines. We have insured the proper application of the formulas for each relevant form line in our recalculation.

Line	FCC Form 509	As Reported FCC Form 509 Filed[16] (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
16	2019 OpEx Limitation and/or FCC Exclusions##	($25,608)	($25,608)	$0
17	2019 Consumer Broadband-Only Loop RRQ (Line 15 + Line 16)	$2,227,965	$2,227,965	$0
18	Pool Administration Expense Amount (applicable to CBOL Tariff Participants Only)	$82,789	$82,789	$0
19	2019 Consumer Broadband-Only Loop RRQ (Line 17 + Line 18)	$2,310,754	$2,310,754	$0
20	2019 Average Monthly Broadband-Only Loops (Line 59)	2,119	2,141	(22)
21	2019 Average Broadband-Only Revenues (Line 20 * 12 * $42)	$1,067,724	$1,079,064	($11,340)
22	Lesser of 2019 Broadband-Only (Line 19) RRQ or Broadband-Only Revenues (Line 21)	$1,067,724	$1,079,064	($11,340)
23	2019 Average of Consumer Broadband-Only Rates (Line 59)	$34.35	$34.35	$0
24	2019 Broadband-Only Revenues (Line 20 * Line 23 * 12)	$873,246	$882,520	($9,274)
25	2019 Broadband-Only Revenues (greater of Line 22 or Line 24)	$1,067,724	$1,079,064	($11,340)
26	2019 CAF BLS BROADBAND-ONLY** (Line 19 - Line 25)	$1,243,030	$1,231,690	$11,340
27	2019 CONNECT AMERICA FUND BROADBAND LOOP SUPPORT (Line 7 + Line 19) - (Line 11 + Line 12 + Line 13 + Line 25)	$1,788,497	$1,777,157	$11,340

Cause
As noted above, the Beneficiary calculated its Average Monthly Broadband-Only Loop count for its FCC Form 509 based on its monthly view of NECA's EC2060-L Report for the months of January through December 2019. However, we noted that there is a one-month delay in the CBOL count values identified in NECA's EC2060-L Report. As a result, NECA's CBOL count reporting for the months of January through December 2019 actually reflected count activity for December 2018 through November 2019. Because the Beneficiary did not properly report its December 2019 CBOL counts for the month in which it provided this service and therefore earned the associated revenue, we concluded that the Beneficiary did not accurately report its Average Monthly Broadband-Only Loops, thereby impacting its 2019 CAF BLS support for HC Program purposes.

The Beneficiary did not have an adequate understanding of—or system in place for—collecting, reporting, and monitoring data to accurately report its Average Monthly Broadband-Only Loop count for HC Program purposes. The Beneficiary stated that this issue occurred as a result of "Timing of Billing and Reporting to NECA following their guidelines."[17]

Effect
We calculated the monetary effect to the Beneficiary's HC Program filing by adding the $11,340 of understated revenue. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$5,670
HCL	$0
CAF ICC	$0
Total	**$5,670**

Recommendations
We recommend that:

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

2. The Beneficiary implements an adequate system to ensure that it reports accurate data for HC Program purposes. We recommend that the Beneficiary take into consideration the fact that there is a one-month delay in NECA's CBOL count reporting and that Beneficiaries should calculate their Average Monthly Broadband-Only Loop count using the data for the actual month.

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

[17] Per the Beneficiary's exception summary response, received on February 21, 2025.

Beneficiary Response
We agree with this finding. We will work with NECA to ensure the correct data is reported.

Sikich Response
Our position on this finding has not changed.

<u>Finding No. 5, 47 C.F.R. §32.2000(g) (2019) – Inaccurate Reporting of Accumulated Depreciation Balance</u>

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

Upon examining the records identified above, we noted that, although Accumulated Depreciation account 3124.310, *Depr-Aerial Wire*, should have a credit balance, it had an abnormal debit balance in the Beneficiary's general ledger ending balance as of December 31, 2019.

Below, we summarize the impact of the Beneficiary's abnormal accumulated depreciation balance applicable to the data filing period ending on December 31, 2019, on account balances reported for HC Program purposes.

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
CWF Accumulated Depreciation (Account 3100-2410)	$13,731,742	$13,706,513	$25,229

Cause
We followed up with the Beneficiary, who stated, "The balance in 3124.[3]10.ATOM is a debit balance; it's negative for Accumulated Depreciation which is usually a credit. This happened in 2013[18] when a large amount of Cost of Removal was recorded along with a retirement."[19]

The Beneficiary misinterpreted FCC Rules regarding how entities must calculate their depreciation expense and accumulated depreciation amounts reported within their cost studies.

[18] While this statement implies that the cause of this finding goes back to 2013, the monetary effect outside the data period of 12 months ending December 31, 2019 will not be pursued as it is outside the scope of this audit.
[19] Per the Beneficiary's response to inquiry #27a on the Audit Inquiries Listing.

The Beneficiary stated that the cause of the inaccurate reporting of depreciation was "Retirement costs booked to accumulated depreciation."[20]

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by subtracting the overstated balance of $25,229 from account 3100-2410. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($1,000)
HCL	($594)
CAF ICC	$0
Total	**($1,594)**[21]

Recommendations

We recommend that:

1. The Beneficiary implement a system that ensures it reports accurate data to USAC for HC Program purposes.

2. The Beneficiary implement policies and procedures to ensure it properly accounts for losses upon retirement of assets.

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

Beneficiary Response

We agree with this finding. Procedures have been put into place to ensure that retirement costs are handled properly in the future.

Sikich Response

Our position on this finding has not changed.

Finding No. 6, 47 C.F.R. §32.4340 (2019) – Inaccurate Cost Study Adjustment Deferred Taxes

[20] Per the Beneficiary's exception summary response, received on February 21, 2025.
[21] The HC 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.

Condition
We obtained and examined the Beneficiary's supporting documentation for 10 cost study adjustments for the filing period ending on December 31, 2019, to determine whether the Beneficiary accurately reported amounts for HC Program purposes.

Upon reviewing the cost study adjustment documentation, we noted that the Beneficiary erroneously did not include the Old Mission SAC when allocating deferred taxes among its affiliates.

Below, we summarize the impact on the Beneficiary's account balances reported for HC Program purposes resulting from the inaccuracy noted in the Beneficiary's deferred tax calculation applicable for the filing period ending on December 31, 2019.

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Land and Support Deferred Tax (Account 4340-2110)	$183,361	$163,001	$20,360
Deferred Taxes COE Switching (Account 4340-2210)	$31,410	$27,920	$3,490
Deferred Taxes COE Transmission (Account 4340-2230)	$405,134	$360,170	$44,964
CWF Deferred Taxes (Account 4340-2410)	$1,388,116	$1,234,050	$154,066

Cause
The Beneficiary stated that, with regard to deferred taxes, "Old Mission's portion is spread among the other 4 entities (Mesick, Allendale, Drenthe and CLEC)."[22] When we requested further explanation, the Beneficiary stated, "Old Mission allocation was excluded from the allocation due to the auditor calculating in prior years the company actually had a deferred tax asset and not a liability, so it was set at zero."[23] In addition, the Beneficiary stated, "The auditor did not actually do a calculation for this in 2019 but went back and recalculated."[24]

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to ensure that it properly calculated and reported balances relating to deferred taxes (Part 32 account 4340) in data reported for HC Program purposes. The Beneficiary stated that the issue occurred because the Beneficiary "Used prior year tax calculation from auditors."[25]

[22] Per the Beneficiary's response to inquiry #15b on the Audit Inquiries Listing.
[23] Id.
[24] Id.
[25] Per the Beneficiary's exception summary response, received on February 21, 2025.

Effect
We calculated the monetary effect to the Beneficiary's HC Program filing by subtracting the overstated balances as follows: $20,360 from account 4340-2110, $3,490 from account 4340-2210, $44,964 from account 4340-2230, and $154,066 from account 4340-2410. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($7,708)
HCL	($4,602)
CAF ICC	$0
Total	**($12,310)**[26]

Recommendation
We recommend that:

1. The Beneficiary establish a process for reviewing the data it reports to USAC to ensure that it uses accurate data in its HC Program filing. Specifically, a review process should be put in place regarding the allocation of deferred income taxes from Ace Telephone of Michigan to its affiliates of Allendale, Drenthe and CLEC.

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

Beneficiary Response
We agree with this finding. Although we acknowledge the shortcomings outlined above, the issue presented is no longer applicable since all of the study areas in question have been combined into one study area.

Sikich Response
Although the Beneficiary states that this finding would no longer be applicable due to the combining of the SACs, we would still reiterate that there is risk to be addressed due to the rolling forward of prior year's allocation factors without proper review in the current HC Program reporting period. As such, our position on this finding has not changed.

Finding No. 7, 47 C.F.R. § 54.320(b) and 47 C.F.R. § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Part 64 Allocations

[26] Id., footnote 19.

Condition
We obtained and examined the Beneficiary's cost allocation factors and corresponding data inputs for the filing period ending on December 31, 2019, to determine whether the allocations have a cost-causative linkage[27] when costs cannot be directly assigned to regulated and nonregulated activities for the reporting of HC Program purposes.

We examined the Part 64 Allocations supporting documentation and identified the following errors in the adjustments the Beneficiary made to its cost study for the filing period ending on December 31, 2019:

- **Inaccurate Land and Building Non-Regulated Factor (Ratebase Adjustment 1 and Expense Adjustment 1):** The non-regulated factor percentage was inaccurate due to the lack of updates to the allocation process. The Beneficiary stated, "The allocation for Mesick was not updated, should have been updated with the uploaded allocation using the regulated customer counts vs non-regulated services."[28]

- **Inadequate and Inaccurate Plant Investment Allocation from Minnesota:** The Beneficiary did not provide support for, nor did it update its allocation for the distribution of motor vehicles, furniture, and office equipment between Minnesota, Iowa, and Michigan for 2019. Instead, the Beneficiary provided a revised and supported allocation factor to replace the embedded percentages originally used for "Option C." Per the Beneficiary, the percentages "should be the ratio used to allocate the GSF investment and accumulated depreciation for motor vehicles, furniture and office equipment."[29] This revision updated the distribution to Part 32 General Support Assets (account 2110), with the associated impact to Accumulated Depreciation (account 3100), General Support Expense (account 6120), and Depreciation Expense (account 6560).

- **Inaccurate General Support Non-Regulated Balances (Ratebase Adjustment 2 and Expense Adjustment 2):** The Beneficiary did not use the correct building depreciation expense account balance from the general ledger when applying the general support assets non-regulated factor to calculate non-regulated general support costs.

As a result of the above errors in the Beneficiary's cost study adjustments for the filing period ending on December 31, 2019, we identified the following differences and made the following adjustments:

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[27] Pursuant to 47 C.F.R. § 64.901(b)(3)(ii), beneficiaries must allocate indirect costs using a cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.
[28] Per the Beneficiary's response to inquiry #19d on the Audit Inquiries Listing.
[29] Per the Beneficiary's response to inquiry #19e on the Audit Inquiries Listing.

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Land and Support Assets (Acct 2110)	$2,999,877	$3,436,569	($436,692)
Land and Support Accumulated Depreciation (Acct 3100 -2100)	$2,712,455	$3,104,848	($392,393)
Land and Support Deferred Tax (Acct 4340-2110)	$183,361	$183,361	$0
Land and Support Depreciation Expense (Acct 6560-2110)	$112,923	$132,357	($19,434)
General Support Expense (Acct 6120)	$288,665	$322,243	($33,578)

Cause

1. **Inaccurate Land and Building Non-Regulated Factor (Ratebase Adjustment 1 and Expense Adjustment 1):** The Beneficiary did not update the non-regulated factor percentage that it used to develop the non-regulated square feet portion of its land and building non-regulated factor.

2. **Inadequate and Inaccurate Plant Investment Allocation from Minnesota:** The Beneficiary's formula did not capture the correct allocation percentages for Option C, which uses plant account balances to distribute Minnesota's land and building expenses among the other related entities located in Michigan and Iowa. Additionally, embedded percentages for multiple data inputs were applied against investment balances. When we requested support for these percentages, the Beneficiary stated, "Hardcoded and not updated."[30]

3. **Inaccurate General Support Non-Regulated Balances (Ratebase Adjustment 2 and Expense Adjustment 2):** The Beneficiary originally used a depreciation expense balance of $37,287, rather than the $37,546 balance identified in the general ledger.

4. The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it accurately calculated adjustments for HC Program purposes. Lack of updates to allocations and account balances were noted under cause 1-4, above. The Beneficiary stated that the issue occurred because "Allocations were not updated."[31]

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by adding the understated balances as follows: $436,692 to account 2110, $392,393 to account 3100-2110,

[30] Per the Beneficiary's response to inquiry #19d on the Audit Inquiries Listing.
[31] Per the Beneficiary's exception summary response, received on February 21, 2025.

$19,434 to account 6560-2110, and $33,578 to account 6120. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($29,951)
HCL	($1,040)
CAF ICC	$0
Total	**($30,991)**[32]

Recommendation
We recommend that:

1. The Beneficiary implement an adequate system for developing, reviewing, and reporting cost study adjustments to ensure that it accurately reports data for HC Program purposes.

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

Beneficiary Response
We agree with this finding. The issues have been corrected going forward and we will ensure current data is reflected in these allocations.

Sikich Response
Our position on this finding has not changed.

Finding No. 8, 47 C.F.R. § 54.7(a) (2019), FCC 15-133 (2015), and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support

Condition
We obtained and examined the Beneficiary's general ledger and cost study balances and tested a non-statistical sample of 100 expense transactions (totaling $156,116) for the filing period ending on December 31, 2019, to determine whether the Beneficiary used HC Program funding for its intended purpose of the provision, maintenance, and upgrading of facilities and services.

Unallowable Expense Transactions
We examined the supporting documentation for the 100 sampled expense transactions and determined that the following 48 expense transactions do not relate to the provision, maintenance, and upgrading of facilities and services.

[32] Id., footnote 19.

Account	Nature of Expense(s)	Number of Samples with Exception[33]	Value of Samples with Exception[34]	Unallowable Value of Sample with Exception[35]
Network Operations Expenses (Account 6530)	Politech Conference; Retirement event	3	$335	$335
Customer Services (Account 6620)	Conference - State legislators and to conduct a legislative visit; Retirement event	5	$739	$739
Corporate Expense (Account 6710)	Travel - funeral	1	$117	$117
General and Administrative (Account 6720)	Professional dues	39	$18,261	$18,261
	Total	**48**	**$19,452**	**$19,452**

In the table below, we summarize the impact of the unallowable costs on account balances reported for HC Program purposes:

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Network Operations Expense (Account 6530)	$651,171	$650,836	$335
Customer Service Expense (Account 6620)	$345,699	$344,960	$739
Corporate Expense (Account 6710)	$113,409	$113,292	$117
General and Administrative (Account 6720)	$544,217	$525,956	$18,261

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure it identified and excluded all non-allowable expenses from the

[33] Id., footnote 12.
[34] Id.
[35] Id.

amounts reported for HC Program purposes. The Beneficiary stated that this issue occurred due to expenses "Booked to regulated accounts."[36]

Effect
We calculated the monetary effect to the Beneficiary's HC Program filing by subtracting the overstated balances as follows: $335 from account 6530, $739 from account 6620, $117 from account 6710, and $18,261 from account 6720. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($99,853)
HCL	$3,898
CAF ICC	$0
Total	**($95,955)**[37]

Recommendation
We recommend that:

1. The Beneficiary develop and implement policies, procedures, and processes to ensure that it excludes any costs not necessary for the provision, maintenance, and upgrading of facilities from amounts submitted for HC Program purposes.

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

Beneficiary Response
We agree with this finding. We have implemented policies, procedures, and processes to ensure that any costs not necessary for the provision, maintenance, and upgrading of facilities are excluded from amounts submitted for HC Program purposes.

Sikich Response
Our position on this finding has not changed.

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Finding No. 9, 47 C.F.R. § 54.903(a)(3)(4) (2019) – Inaccurate Reporting of Average Monthly Broadband-Only Loops

[36] Per the Beneficiary's exception summary response, received on February 21, 2025.
[37] Id., footnote 19.

Condition
We obtained and examined the Beneficiary's FCC Form 509, NECA EC2060-L Report, Calculation of the Average Monthly Broadband-Only Loops and Billing Report for Consumer Broadband-Only Loops (CBOL), to determine whether the Beneficiary accurately calculated and reported its Average Monthly Broadband-Only Loops for HC Program purposes.

We found that the Beneficiary inaccurately reported its Average Monthly Broadband-Only Loops on its FCC Form 509. We recalculated the Beneficiary's Average Monthly Broadband-Only Loops by compiling the actual count activity for the period from January through December 2019 and dividing this count by 12 months, for a total of 2,609 loops (31,310 count / 12 months = 2,609). The following table summarizes the difference between our recalculation and the count in the Beneficiary's Form 509 and the financial impact of this difference:

Average Monthly Broadband-Only Loops	For Data Period 2019
Reported on FCC Form 509	2,565
Recalculated by Sikich	2,609
Difference	**44**

Line	FCC Form 509	As Reported FCC Form 509 Filed[38] (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
7	2019 Common Line Voice Revenue Requirement (Line 5 + Line 6)	$828,627	$828,627	$0
11	2019 SLC Revenue (Line 8 + Line 9 - Line 10)	$132,757	$132,757	$0
12	2019 End User ISDN Port Revenue	$1,471	$1,471	$0
13	2019 Special Access Surcharge Revenue	$0	$0	$0
14	2019 CAF BLS Voice ** (Line 7 - Line 11 - Line 12 - Line 13)	$694,399	$694,399	$0
15	2019 Consumer Broadband-Only Loop RRQ	$4,222,678	$4,222,678	$0
16	2019 OpEx Limitation and/or FCC Exclusions##	($13,415)	($13,415)	$0

[38] The source for the "as reported" amounts comes from NECA's PDF version of the Form 509. Some as reported balances on the PDF of the submitted Form 509 do not appear to be formula driven as they do not calculate when applying the formulas noted for specific lines. We have insured the proper application of the formulas for each form line in our recalculation.

Line	FCC Form 509	As Reported FCC Form 509 Filed[38] (A)	Sikich Audited Form 509 Balances (B)	Variance Overstatement/ (Understatement) (A-B)
17	2019 Consumer Broadband-Only Loop RRQ (Line 15 + Line 16)	$4,209,263	$4,209,263	$0
18	Pool Administration Expense Amount (applicable to CBOL Tariff Participants Only)	$156,412	$156,412	$0
19	2019 Consumer Broadband-Only Loop RRQ (Line 17 + Line 18)	$4,365,675	$4,365,675	$0
20	2019 Average Monthly Broadband-Only Loops (Line 59)	2,565	2,609	(44)
21	2019 Average Broadband-Only Revenues (Line 20 * 12 * $42)	$1,292,508	$1,314,936	($22,428)
22	Lesser of 2019 Broadband-Only (Line 19) RRQ or Broadband-Only Revenues (Line 21)	$1,292,508	$1,314,936	($22,428)
23	2019 Average of Consumer Broadband-Only Rates (Line 59)	$34.86	$34.86	$0
24	2019 Broadband-Only Revenues (Line 20 * Line 23 * 12)	$1,072,782	$1,091,397	($18,615)
25	2019 Broadband-Only Revenues (greater of Line 22 or Line 24)	$1,292,508	$1,314,936	($22,428)
26	2019 CAF BLS BROADBAND-ONLY** (Line 19 - Line 25)	$3,073,167	$3,050,739	$22,428
27	2019 CONNECT AMERICA FUND BROADBAND LOOP SUPPORT (Line 7 + Line 19) - (Line 11 + Line 12 + Line 13 + Line 25)	$3,767,566	$3,745,138	$22,428

Cause
As noted above, the Beneficiary calculated its Average Monthly Broadband-Only Loop count for its FCC Form 509 based on its monthly view of NECA's EC2060-L Report for the months of January through December 2019. However, we noted that there is a one-month delay in the

CBOL count values identified in NECA's EC2060-L Report. As a result, NECA's CBOL count reporting for the months of January through December 2019 actually reflected count activity for December 2018 through November 2019. Because the Beneficiary did not properly report its December 2019 CBOL counts for the month in which it provided this service and therefore earned the associated revenue, we concluded that the Beneficiary did not accurately report its Average Monthly Broadband-Only Loops, thereby impacting its 2019 CAF BLS support for HC Program purposes.

The Beneficiary did not have an adequate understanding of—or system in place for—collecting, reporting, and monitoring data to ensure that it accurately reported its Average Monthly Broadband-Only Loops for HC Program purposes. The Beneficiary stated that this issue occurred as a result of "Timing of Billing and Reporting to NECA following their guidelines."[39]

Effect

We calculated the monetary effect on the Beneficiary's HC Program filing by adding the $22,512 of understated revenue. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$11,256
HCL	$0
CAF ICC	$0
Total	**$11,256**

Recommendations

We recommend that:

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

2. The Beneficiary implement an adequate system to ensure that it reports accurate data for HC Program purposes. We recommend that the Beneficiary take into consideration the fact that there is a one-month delay in NECA's CBOL count reporting and that Beneficiaries should calculate their Average Monthly Broadband-Only Loop count using the data for the actual month.

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

Beneficiary Response

We agree with this finding. We will work with NECA to ensure the correct data is reported.

[39] Per the Beneficiary's exception summary response, received on February 21, 2025.

Sikich Response
Our position on this finding has not changed.

Finding No. 10, 47 C.F.R. § 54.7(a) (2019), FCC 15-133 (2015), and FCC 18-29 (2018) – Support Not Used for Intended Purpose of Federal Universal Service Support

Condition
We obtained and examined the Beneficiary's general ledger and cost study balances and tested a non-statistical sample of 42 expense transactions (totaling $184,617) for the filing period ending on December 31, 2019, to determine whether the Beneficiary used HC Program funding for its intended purpose of the provision, maintenance, and upgrading of facilities and services.

Unallowable Expense Transactions
We examined the supporting documentation for the 42 sampled expense transactions and determined that the following 12 expense transactions do not relate to the provision, maintenance, and upgrading of facilities and services.

Account	Nature of Expense(s)	Number of Samples with Exception[40]	Value of Samples with Exception[41]	Unallowable Value of Sample with Exception[42]
COE Transmission Expenses (Account 6230)	Memorial for death of mother	1	$50	$50
Network Operations Expenses (Account 6530)	Training, conference, tuition, book expense	5	$5,319	$5,319
Marketing (Account 6610)	Lunch with client and memorial for death of father	2	$128	$128
Customer Services (Account 6620)	Gift for customer service representatives	1	$21	$21
General and Administrative (Account 6720)	Professional dues	3	$36,205	$4,345
	Total	**12**	**$41,723**	**$9,863**

In the table below, we summarize the impact of the unallowable costs on account balances reported for HC Program purposes:

[40] Id., footnote 12.
[41] Id.
[42] Id.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (A-B)**
COE Transmission Expenses (Account 6230)	$159,382	$159,332	$50
Network Operations Expenses (Account 6530)	$942,256	$936,937	$5,319
Marketing (Account 6610)	$100,000	$99,872	$128
Customer Services (Account 6620)	$295,433	$295,412	$21
General and Administrative (Account 6720)	$600,776	$596,431	$4,345

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure it identified and excluded all non-regulated expenses from the amounts reported for HC Program purposes. The Beneficiary stated that this issue occurred due to expenses "Booked to regulated accounts."[43]

Effect
We calculated the monetary effect on the Beneficiary's HC Program filing by subtracting the overstated balances as follows: $50 from account 6230, $5,319 from account 6530, $128 from account 6610, $21 from account 6620, and $4,345 from account 6720. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$6,001
HCL	$1,469
CAF ICC	$0
Total	**$7,470**

Recommendations
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 it excludes any costs not necessary for the provision, maintenance, and upgrading of facilities from amounts submitted for HC Program purposes.

[43] Per the Beneficiary's exception summary response, received on February 21, 2025.

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

Beneficiary Response
We agree with this finding. We have implemented policies, procedures, and processes to ensure that any costs not necessary for the provision, maintenance, and upgrading of facilities are excluded from amounts submitted for HC Program purposes.

Sikich Response
Our position on this finding has not changed.

Finding No. 11, 47 C.F.R. § 54.320(b), 47 C.F.R § 32.27, and 47 C.F.R § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Related Party Transactions

Condition
We obtained and examined the Beneficiary's general ledger, lease agreements, investment and plant expense balance, access line count report, customer service count report, and employee listing report and tested a non-statistical sample of seven related-party transactions totaling $112,923 to determine whether the Beneficiary accurately calculated the expenses it shared between affiliates for HC Program purposes for the filing periods ending on December 31, 2019.

Upon examining the supporting documentation for the related-party transaction samples, we identified the following instances of inadequate documentation or errors:

- **Inadequate Documentation for Related Party Switching Agreement (Sample R1):** The Beneficiary could not provide any support as to how it calculated the payments/rates that it booked in Part 32 account 5263 included in the switching agreement provided between SAC 310704 and SAC 310669.

- **Inaccurate Data Used to Develop Allocation Factors for Common Costs (Samples 2, 4, 6, and 7):** The Common Costs Allocation documentation we reviewed for the customer service account factor and the investment and plant expense factor that the Beneficiary used to allocate common expenses from the parent company did not tie to the values used in the calculation the Beneficiary provided. We therefore could not verify the Beneficiary's allocation factors provided, as the Beneficiary could not provide support for how they were derived. Therefore, new allocation factors were derived by the Beneficiary and we performed a full 12-month recalculation using verified balances from support impacting the Part 32 accounts General Support Expenses (account 6120) and General and Administrative (account 6720).

As a result of the inadequate documentation and inaccuracies we identified in the Beneficiary's related-party transaction samples applicable to the filing period ending on December 31, 2019, we noted the following impact on account balances the Beneficiary reported for HC Program purposes:

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance (Understatement) (A-B)
General Support Expense (Account 6120)	$195,651	$201,310	($5,659)
General and Administrative Expense (Account 6720)	$600,776	$601,345	($569)

Cause

1. **Inadequate Documentation for Related Party Switching Agreement (Sample R1):** In response to our inquiry, the Beneficiary stated that it reviewed the pricing of other entities that offered similar services and, if the pricing appeared to be reasonable, the Beneficiary mirrored the other entities' pricing. The Beneficiary did not maintain any support other than the agreement itself.

2. **Inaccurate Data Used to Develop Allocation Factors for Common Costs (Samples 2, 4, 6, and 7):** As noted above, the documentation we reviewed for the customer service account factor and the investment and plant expense factor that the Beneficiary used to allocate common expenses from the parent company did not tie to the values used in the calculation the Beneficiary provided. The Beneficiary stated that this issue occurred because "Allocations not updated."[44]

3. The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that data inputs such as account balances and annual values of customer service accounts were based on updated information and accurate calculations. With regard to samples for which the Beneficiary did not provide adequate support, the Beneficiary stated that this issue occurred as a result of "Old agreements and inadequate support documentation."[45]

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by adding the understated balances as follows: $5,659 to account 6120 and $569 to account 6720. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

[44] Per the Beneficiary's exception summary response, received on February 21, 2025.
[45] Id.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($4,054)
HCL	($943)
CAF ICC	$0
Total	**($4,997)**[46]

Recommendations
We recommend that:

1. The Beneficiary develop and implement policies, procedures, and processes that describe how it will ensure it records transactions to the proper Part 32 account.

2. The Beneficiary ensure that it accurately calculates and adequately supports allocations for balances submitted for HC Program purposes, as required by FCC Rules.[47]

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

Beneficiary Response
We agree with this finding. Affiliate agreements have been reviewed and a process has been put into place to ensure related documentation is maintained and to review agreement on an annual basis.

Sikich Response
Our position on this finding has not changed.

Finding No. 12, 47 C.F.R. §36.121(b)(c)(d) (2019) – Inaccurate Reporting of COE Assets

Condition
We obtained and examined the Beneficiary's COE common distribution for the filing period ending on December 31, 2019, to determine whether the Beneficiary properly separated COE assets in categories inclusive of equipment not assigned to a specific category (e.g., common power equipment) and whether it accurately reported the data for HC Program purposes.

We examined the supporting documentation for the common distribution of the Beneficiary's COE assets and identified the following errors:

- **Category 4.13 Error:** We noted that the Beneficiary had erroneously reported the 2018 balance for category 4.13, rather than the 2019 balance. Category 4.13 balance gets

[46] Id., footnote 19.
[47] See 47 C.F.R § 54.320(b) (2019).

utilized in the Beneficiary joint use allocation of category 4.11 and 4.13. Thus, an error in the Beneficiary joint use allocation was also noted.

- **Category 4.23 Error:** We noted that the Beneficiary had erroneously reported the 2018 balance for category 4.23, rather than the 2019 balance.

- **CBOL Error:** In calculating its common distribution for its COE assets, the Beneficiary erroneously used the November 2019 CBOL count of 2,792, rather than the December 2019 CBOL count of 2,841.

- **Wideband Allocation Update:** As a result of the errors noted above, the Beneficiary's wideband allocation was incorrect, which impacted category 4.22 and category 4.23.

Below, we summarize the revisions we made to the Beneficiary's COE categorization because of the Beneficiary's errors in its COE common distribution support for the filing period ending December 31, 2019, including our revisions to the total category 4.11, 4.13, 4.22, and 4.23 balances reported for HC Program purposes.

Impact to COE Transmission Categorization for 2019[48]			
Category	Part 36 Cost Study as Reported (A)	Sikich Audited Balance (B)	Overstatement (A-B)
Category 4.11 -Exchange Circuit	$2,433,611	$2,332,016	$101,595
Category 4.12 - Exch Trunk x/WB	$142,410	$142,410	$0
Category 4.13 - Joint MSG	$2,546,023	$2,745,197	($199,174)
Category 4.13 – PL & Local	$11,633	$12,543	($910)
Category 4.22 - PL	$773,706	$681,321	$92,385
Category 4.23 – Joint MSG	$78,468	$74,074	$4,394
Category 4.23 - PL & Local	$30,515	$28,806	$1,709
Category 4.3 - Joint (x/WATS)	$24,929	$24,929	$0
Total	**$6,041,295**	**$6,041,295**	**$0**

Because the Beneficiary used incorrect data in calculating its common distribution for its categorization of COE assets, we concluded that the Beneficiary did not properly categorize, but with no impact to the total COE account balance reported.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it reported the correct COE data inputs. The Beneficiary stated

[48] Beneficiaries only report balances for COE transmission categorization for 2021 HC Program disbursements as of December 31, 2019.

that the inaccuracies, particularly those related to the CBOL counts, occurred because "Previous balances were carried forward and incorrect CBOL count used."[49]

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing, by adjusting the CAF BLS and HCL algorithms to subtract the overstated balances and add the understated balances in the "Impact to COE Transmission Categorization for 2019" table above. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$8,209
HCL	($25,725)
CAF ICC	$0
Total	**($17,516)**[50]

Recommendation

We recommend that:

1. The Beneficiary implement an adequate system to ensure that it accurately reports total COE for HC Program purposes. Specifically, put in place a review process to ensure category balances of COE assets are up to date and that the CBOL count reflects a balance as of the cost study filing period of December 31.

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

Beneficiary Response

We agree with this finding. New processes are in place to ensure data is reviewed and correct.

Sikich Response

Our position on this finding has not changed.

Finding No. 13, 47 C.F.R. § 32.2(a)(b) (2019) – Improper Recording of an Asset

Condition

We obtained and examined the Beneficiary's general ledger, CPRs, and cost study balances and tested a non-statistical sample of 10 asset transactions (totaling $720,302) for the filing period ending on December 31, 2019, to determine whether the Beneficiary recorded transactions to the proper Part 32 accounts for HC Program purposes.

[49] Per the Beneficiary's exception summary response, received on February 21, 2025.
[50] Id., footnote 19.

We examined the supporting documentation for the 10 sampled asset transactions and determined that the Beneficiary improperly recorded 1 of the 10 transactions, as follows:

Sample Ref #	Nature of Transaction	Original Recorded General Ledger Account	Updated Recorded General Ledger Account	Value of Sample with Exception[51]
10	Outside Labor – Part SEBOV(1X75)	Accumulated Depreciation for CWF Asset (Account 3100-2410)	CWF Asset (Account 2410)	$47,812

Because the Beneficiary did not record the asset transaction to the proper Part 32 account, we concluded that the cost study balances the Beneficiary reported for HC Program purposes were inaccurate. We summarize the effect of the asset misclassification in the table below.

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
CWF (Account 2410)	$23,191,400	$23,239,212	($47,812)
CWF Accumulated Depreciation (Account 3100-2410)	$4,204,355	$4,166,106	$38,249
CWF Deferred Taxes (Account 4340-2410)	$2,141,951	$2,143,180	($1,229)
CWF Depreciation Expense (Account 6560-2410)	$1,240,120	$1,249,682	($9,562)
CWF (DL700)	$23,191,400	$23,239,212	($47,812)
Category 1 Investment for CWF (DL710)	$7,817,922	$7,835,120	($17,198)

Impact to CWF Categorization for 2019[52]			
Category	Part 36 Cost Study as Reported (A)	Sikich Audited Balance (B)	(Understatement) (A-B)
Category 1 – 1.1 Intra PL & WATS	$25,227	$25,272	($45)
Category 1 - 1.2 Inter PL & WATS	$18,920	$18,953	($33)

[51] Id., footnote 12.
[52] For Part 64, the Beneficiary reports CWF balances for 2021 HC Program disbursements as of December 31, 2019. However for Part 36, Beneficiary reports the balances as an average of the current and prior data period balances by CWF category. As a result, the balances reported for Category 1 in Table "Recalculation of Part 64 Balances" and Table "Impact to CWF Categorization for 2019" differ.

Impact to CWF Categorization for 2019[52]			
Category	Part 36 Cost Study as Reported (A)	Sikich Audited Balance (B)	(Understatement) (A-B)
Category 1 – 1.3 Jointly Used	$9,662,020	$9,679,139	($17,119)
Category 2 - Ex Trk x/WB	$33,598	$33,658	($60)
Category 2 - WB Trunk	$158,391	$158,672	($281)
Category 2 - WB Data Only Loop	$17,012,578	$17,042,722	($30,144)
Category 3 - WB PL	$31,898	$31,954	($56)
Category 3 - Joint MSG x/WB	$22,950	$22,991	($41)
Category 3 - PL & Local x/WB	$8,401	$8,416	($15)
Category 4 - Joint (x/WATS)	$10,189	$10,207	($18)
Total	**$26,984,172**	**$27,031,984**	**($47,812)**

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure it recorded assets to the proper general ledger account for HC Program purposes. The Beneficiary stated that the issue occurred because "WO closed to incorrect sub account."[53]

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

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($15,091)
HCL	($3,370)
CAF ICC	$0
Total	**($18,461)**[54]

Recommendation
We recommend that:

1. The Beneficiary implement policies and procedures to ensure it classifies expense transactions to the proper Part 32 accounts in compliance with FCC Rules. Specifically, the Beneficiary should develop policies and procedures that require Beneficiary

[53] Per the Beneficiary's exception summary response, received on February 21, 2025.
[54] Id., footnote 19.

personnel to vet asset types against the Part 32 account definitions to ensure they are correctly coding the assets in the general ledger.

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

Beneficiary Response
We agree with this finding. We have implemented policies, procedures, and processes to the work order closing process to ensure assets are correctly accounted for HC Program purposes.

Sikich Response
Our position on this finding has not changed.

Finding No. 14, 47 C.F.R. § 54.320(b) and 47 C.F.R. § 64.901(b) (2019) – Inadequate Documentation and Inaccurate Reporting: Part 64 Allocations

Condition
We obtained and examined the Beneficiary's Part 64 Cost Allocation including factors and corresponding data inputs for the filing period ending on December 31, 2019, to determine whether the allocations have a cost-causative linkage[55] when costs cannot be directly assigned to regulated and non-regulated activities for HC Program purposes.

We examined Part 64 Cost Allocation supporting documentation and identified the following errors and inadequate support for the adjustments the Beneficiary made to its cost study for the filing period ending on December 31, 2019:

- **CLEC Allocation (Ratebase Adjustment 1 and Expense Adjustment):** Within Part 64 Cost Allocation, the Beneficiary did not correctly carry out the methodology for its CLEC allocation of investments and expenses from Allendale. Specifically, when calculating the CLEC balance (i.e., the removal balance from Allendale's accounts), the Beneficiary applied Option 6 at a rate of 6.23 percent to the following Part 32 account balances for Allendale: Other Property, Plant and Equipment Expenses (account 6510) and Network Operations Expenses (account 6530). In response to our request for supporting documentation, the Beneficiary stated, "Option 6 should have been the CLEC adjusted COE/CWF amount divided by the total COE/CWF Balances for ACEA. This was not updated from previous year."[56]

- **General Support Non-Regulated Factor (Ratebase Adjustment 2 and Expense Adjustment 2): Within Part 64 Cost Allocation,** the Beneficiary was unable to support the calculation it used to determine the non-regulated square footage portion of the building for Allendale. In response to our follow-up inquiry, the Beneficiary stated that it

[55] Pursuant to 47 C.F.R. § 64.901(b)(3)(ii), beneficiaries must allocate indirect costs using a cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.
[56] Per the Beneficiary's response to inquiry #19c on the Audit Inquiries Listing.

had "carried forward [the calculation] from prior consultant since building was unchanged."[57]

As a result of the above errors and lack of supporting documentation in the Beneficiary's cost study adjustments for the filing period ending on December 31, 2019, we identified the following differences and made the following adjustments:

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Land and Support Assets (Account 2110)	$2,789,704	$2,774,764	$14,940
Land and Support Accumulated Depreciation (Account 3100 -2110)	$796,760	$799,351	($2,591)
Land and Support Deferred Tax (Account 4340-2110)	$236,164	$236,958	($794)
Land and Support Depreciation Expense (Account 6560-2110)	$119,573	$119,047	$526
General Support Expense (Account 6120)	$195,651	$194,461	$1,190
Other Property, Plant and Equipment Expense (Account 6510)	$96	$102	($6)
Network Operations Expense (Account 6530)	$942,256	$985,381	($43,125)
General and Administrative Expense (Account 6720)	$600,776	$601,609	($833)

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it accurately calculated adjustments for HC Program purposes. Specifically, the Beneficiary did not properly update its allocation factors and did not maintain documentation to support allocation factors carried forward. The Beneficiary stated that the issue occurred because "Allocations were not updated."[58]

Effect
We calculated the monetary effect on the Beneficiary's HC Program filing for the period ending December 31, 2019, by adjusting the CAF BLS and HCL algorithms to subtract the overstated balances and add the understated balances in the "Recalculation of Part 64 Balances" table

[57] Id.
[58] Per the Beneficiary's exception summary response, received on February 21, 2025.

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

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($28,114)
HCL	($6,648)
CAF ICC	$0
Total	**($34,762)**[59]

Recommendations
We recommend that:

1. The Beneficiary implement an adequate system for developing, reviewing, and reporting cost study adjustments to ensure that it accurately reports data for HC Program purposes.

2. The Beneficiary maintain documentation to support allocations for balances submitted for HC Program purposes for 10 years from the time of receipt of the funding as required by FCC Rules.[60]

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

Beneficiary Response
We agree with this finding. The issues have been corrected going forward and we will ensure current data is reflected in these allocations.

Sikich Response
Our position on this finding has not changed.

Finding No. 15, 47 C.F.R. § 32.4340 (2019) – Inaccurate Cost Study Adjustment Deferred Taxes

Condition
We obtained and examined the Beneficiary's supporting documentation for eight cost study adjustments for the filing period ending on December 31, 2019, to determine whether the Beneficiary accurately reported amounts for HC Program purposes.

Upon reviewing the cost study adjustment documentation, we noted that the Beneficiary erroneously did not include the Old Mission SAC when allocating deferred taxes among its affiliates.

[59] Id., footnote 19.
[60] See 47 C.F.R § 54.320(b) (2019).

Below, we summarize the impact on the Beneficiary's account balances reported for HC Program purposes resulting from the inaccuracy noted in the Beneficiary's deferred tax calculation applicable to the filing period ending on December 31, 2019.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (A-B)**
Land and Support Deferred Tax (Account 4340-2110)	$236,164	$133,139	$103,025
Deferred Taxes COE Switching (Account 4340-2210)	$82,744	$46,648	$36,096
Deferred Taxes COE Transmission (Account 4340-2230)	$508,744	$286,809	$221,935
CWF Deferred Taxes (Account 4340-2410)	$2,141,951	$1,207,539	$934,412

Cause

The Beneficiary stated that, with regard to deferred taxes, "Old Mission's portion is spread among the other 4 entities (Mesick, Allendale, Drenthe and CLEC)."[61] When we requested further explanation, the Beneficiary stated, "Old Mission allocation was excluded from the allocation due to the auditor calculating in prior years the company actually had a deferred tax asset and not a liability, so it was set at zero."[62] In addition, the Beneficiary stated, "The auditor did not actually do a calculation for this in 2019 but went back and recalculated."[63]

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to ensure that it properly calculated and reported balances relating to deferred taxes (Part 32 account 4340) in data reported for HC Program purposes. The Beneficiary stated that the inaccurate reporting of the study adjustment relating to deferred taxes occurred because the Beneficiary "Used prior year tax calculation from auditors."[64]

Effect

We calculated the monetary effect to the Beneficiary's HC Program filing by subtracting the overstated balances as follows: $103,025 from account 4340-2110, $36,096 from account 4340-2210, $221,935 from account 4340-2230, and $934,412 from account 4340-2410. We summarize the impact of this finding relative to disbursements made from the HC Program for the 12-month period ending December 31, 2021, in the table below.

[61] Per the Beneficiary's response to inquiry #15b on the Audit Inquiries Listing.
[62] Id.
[63] Id.
[64] Per the Beneficiary's exception summary response, received on February 21, 2025

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($55,158)
HCL	($19,504)
CAF ICC	$0
Total	**($74,662)**[65]

Recommendation
We recommend that:

1. The Beneficiary establish a process for reviewing the data it reports to USAC to ensure that it uses accurate data in its HC Program filing.

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

Beneficiary Response
We agree with this finding. Although we acknowledge the shortcomings outlined above, the issue presented is no longer applicable since all of the study areas in question have been combined into one study area.

Sikich Response
Although the Beneficiary states that this finding would no longer be applicable due to the combining of the SACs, we would still reiterate that there is risk to be addressed due to the rolling forward of prior year's allocation factors without proper review in the current HC reporting period. As such, our position on this finding has not changed.

[65] Id., footnote 19.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 32.2002 (2019)	*(a) This account shall include the original cost of property owned and held for no longer than two years under a definite plan for use in telecommunications service. If at the end of two years the property is not in service, the original cost of the property may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and report those amounts in reports filed with the Commission pursuant to 43.21(e)(1) and 43.21(e)(2) of this chapter.* *(b) Subsidiary records shall be maintained to show the character of the amounts carried in this account.*
1	47 C.F.R. § 32.1220(c) (2019)	*(c) 1220.1 Material and supplies. This subaccount shall include cost of material and supplies held in stock including plant supplies, motor vehicles supplies, tools, fuel, other supplies and material and articles of the company in process of manufacture for supply stock. (Note also § 32.2000(c)(2)(iii) of this subpart.)*
1, 12	47 C.F.R. § 36.121(b)(c)(d) (2019)	*(b) Records of the cost of central office equipment are usually maintained for each study area separately by accounts. However, each account frequently includes equipment having more than one use. Also, equipment in one account frequently is associated closely with equipment in the same building in another account. Therefore, the separations procedures for central office equipment have been designed to deal with categories of plant rather than with equipment in an account.* *(c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records.* *(1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the*

Finding	Criteria	Description
		categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories. *(i) The cost of power equipment used by one category is assigned directly to that category, e.g., 130-volt power supply provided for circuit equipment. The cost of emergency power equipment protecting only power equipment used by one category is also assigned directly to that category.* *(ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment.* *(d) The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment.*
2, 7, 11, 14	47 C.F.R. § 54.320(b) (2019)	*(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.*
2, 11	47 C.F.R. § 32.27 (2019)	*(a) Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in 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*

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

Finding	Criteria	Description
		qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost. *(1) Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.* *(2) Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.* *(3) Threshold. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.* *(d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or*

Finding	Criteria	Description
		service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied. *(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.* *(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.*
2, 7, 11, 14	47 C.F.R § 64.901(b) (2019)	*(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.* *(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service.* *(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.*

Finding	Criteria	Description
		(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.*
3, 13	47 C.F.R. §32.2(a)(b) (2019)	*(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure.*

Finding	Criteria	Description
		(b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.
4, 9	47 C.F.R. §54.903(a)(3)(4) (2019)	*(3) Each rate-of-return carrier shall submit to the Administrator annually by March 31 projected data necessary to calculate the carrier's prospective CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for each of its study areas in the upcoming funding year. The funding year shall be July 1 of the current year through June 30 of the next year. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories.* *(4) Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect*

Finding	Criteria	Description
		duplicative assignment of costs to the consumer broadband-only loop and special access categories.
5	47 C.F.R. §32.2000(g) (2019)	*(1)* ***Computation of depreciation rates.*** *(i) Unless otherwise provided by the Commission, either through prior approval or upon prescription by the Commission, depreciation percentage rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property.* *(ii) In the event any composite percentage rate becomes no longer applicable, revised composite percentage rates shall be computed in accordance with paragraph (g)(1)(i) of this section.* *(iii) The company shall keep such records of property and property retirements as will allow the determination of the service life of property which has been retired, or facilitate the determination of service life indications by mortality, turnover, or other appropriate methods. Such records will also allow the determination of the percentage of salvage value and cost of removal for property retired from each class of depreciable plant.* *(2)* ***Depreciation charges.*** *(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges.* *(ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant.* *(iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate*

Finding	Criteria	Description
		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.* *(3)* ***Acquired depreciable plant.*** *When acquired depreciable plant carried in Account 1438, Deferred maintenance, retirements and other deferred charges, is distributed to the appropriate plant accounts, adjusting entries shall be made covering the depreciation charges applicable to such plant for the period during which it was carried in Account 1438.* *(4) Plant Retired for Nonrecurring Factors not Recognized in Depreciation Rates.* *(i) A retirement will be considered as nonrecurring (extraordinary) only if the following criteria are met:* *(A) The impending retirement was not adequately considered in setting past depreciation rates.* *(B) The charging of the retirement against the reserve will unduly deplete that reserve.* *(C) The retirement is unusual such that similar retirements are not likely to recur in the future.* *(5) Upon direction or approval from this Commission, the company shall credit Account 3100, Accumulated*

Finding	Criteria	Description
		Depreciation, and charge Account 1438, Deferred Maintenance, retirements and other deferred charges, with the unprovided-for loss in service value. Such amounts shall be distributed from Account 1438 to Account 6561, Depreciation expense—Telecommunications plant in service, or Account 6562, Depreciation expense—property held for future telecommunications use, over such period as this Commission may direct or approve.
6, 15	47 C.F.R. §32.4340 (2019)	*(a) This account shall include the balance of income tax expense related to noncurrent items from regulated operations which have been deferred to later periods as a result of comprehensive interperiod tax allocation related to temporary differences that arise from regulated operations.* *(b) This account shall be credited or debited, as appropriate, and Account 7250, Provision for Deferred Operating Income Taxes—Net, shall reflect the offset for the tax effect of revenues and expenses from regulated operations which have been included in the determination of taxable income, but which will not be included in the determination of book income or for the tax effect of revenues and expenses from regulated operations which have been included in the determination of book income prior to the inclusion in the determination of taxable income.* *(c) As regulated assets or liabilities which generated the prepaid income tax or deferred income tax are reclassified from long-term or noncurrent status to current status, the appropriate deferred income tax shall be reclassified from this account to Account 4100, Net Current Deferred Operating Income Taxes.* *(d) The classification of deferred income taxes as current or noncurrent shall follow the classification of the asset or liability that gave rise to the deferred income tax. If there is no related asset or liability, classification shall be based on the expected turnaround of the temporary difference.* *(e) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that are property related and those that are nonproperty related. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.*

Finding	Criteria	Description
8, 10	FCC 15-133 – ALL UNIVERSAL SERVICE HIGH-COST SUPPORT RECIPIENTS ARE REMINDED THAT SUPPORT MUST BE USED FOR ITS INTENDED PURPOSE	*Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended… The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support:* • *Personal travel;* • *Entertainment;* • *Alcohol;* • *Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements;* • *Political contributions;* • *Charitable donations;* • *Scholarships;* • *Penalties or fines for statutory or regulatory violations;* • *Penalties or fees for any late payments on debt, loans or other payments;* • *Membership fees and dues in clubs and organizations;* • *Sponsorships of conferences or community events;* • *Gifts to employees; and* *Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.*
8, 10	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 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*

Finding	Criteria	Description
		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.
8, 10	47 C.F.R. § 54.7(a) (2019)	*(a) A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.*

Sikich CPA LLC

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

Entity Name	**Number of Findings**	**Significant Findings**	**Amount of Support**	**Monetary Effect**	**USAC Management Recovery Action**	**Entity Disagreement**
Attachment A Hopi Telecommunications, Inc.	0	• Not applicable.	$123,472	$0	$0	N/A
Total	**0**		**$123,472**	**$0**	**$0**	

Attachment A

LI2023LR004

Hopi Telecommunications, Inc.

Audit ID: LI2023LR004

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: September 12, 2025

KPMG LLP
8350 Broad Street #900
McLean, VA 22102

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

September 12, 2025

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the limited review performance audit objective relative to Hopi Telecommunications Inc. ("Hopi" or "Beneficiary") for Study Area Code ("SAC") 450815, 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 September 12, 2025 and our results are as of September 12, 2025.

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

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

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

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

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

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

In addition, we also noted one 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 September 12, 2025.

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

Sincerely,

KPMG LLP

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

AUDIT RESULTS

KPMG's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVE, SCOPE, AND PROCEDURES

BACKGROUND

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

The Beneficiary is located in Flagstaff, Arizona, and provides wireline telephone, internet and television services. The Beneficiary operates in the states identified in the table below.

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

SAC	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
450815	Arizona	Tribal Lifeline	5,023	$123,362
450815	Arizona	Tribal Link-Up	11	$110
TOTAL			**5,034**	**$123,472**

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 from July 1, 2021 to June 30, 2022[1] 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

[1] Disbursement information as of August 25, 2023

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 that 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 90 bills and associated subscriber account support to demonstrate that the Beneficiary passed through the Lifeline program support to 30 subscribers sampled as monthly bill credits and confirmed whether the amount agreed to its monthly LCS claims.

4. **Usage**
   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 30 subscribers and confirmed that the Beneficiary assessed and collected a monthly fee and, thus, was not subject to the requirements of monitoring whether subscribers used the service.

5. **Minimum Service Standards**
   KPMG obtained and examined the Beneficiary's evidence of the level of service provided for all subscribers to determine whether the Beneficiary provided eligible services and devices that meet the Lifeline minimum service standards, and the related amount claimed to the LCS agreed with the amount permitted based on the service offerings to its Lifeline subscribers.[2]

[2] The Beneficiary does not offer at a fixed broadband speed of 25 Mbps download and 3 Mbps upload level of service to any of its subscribers (as verified via review of the Beneficiary's non-Lifeline documentation); however, the Beneficiary's offerings are at least 4 Mbps download and 1 Mbps upload.

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 relating to the Lifeline program). The evidence confirmed that the Beneficiary is not a reseller of telecommunications, and therefore, no further reseller testing was applicable.

7. **Enrollment Representative Accountability**
   KPMG obtained an understanding of the Beneficiary's enrollment representative process relating to the Lifeline program to determine whether the Beneficiary complied with the FCC Rules. KPMG obtained and examined a sample of five paychecks for the only enrollment agent utilized by Hopi to determine whether the Beneficiary compensates its enrollment representative on a commission basis.

RESULTS

KPMG's performance audit procedures identified no audit findings.

Refer to the Conclusion section below.

CONCLUSION

KPMG's evaluated 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 relevant to the reimbursement on Lifeline Claim System submissions made from the Lifeline program from July 1, 2021 to June 30, 2022. As noted in the Executive Summary, we identified no significant audit findings.

** This concludes the audit report.**