



Avoiding Common Audit Findings

High Cost Program

December 10, 2019



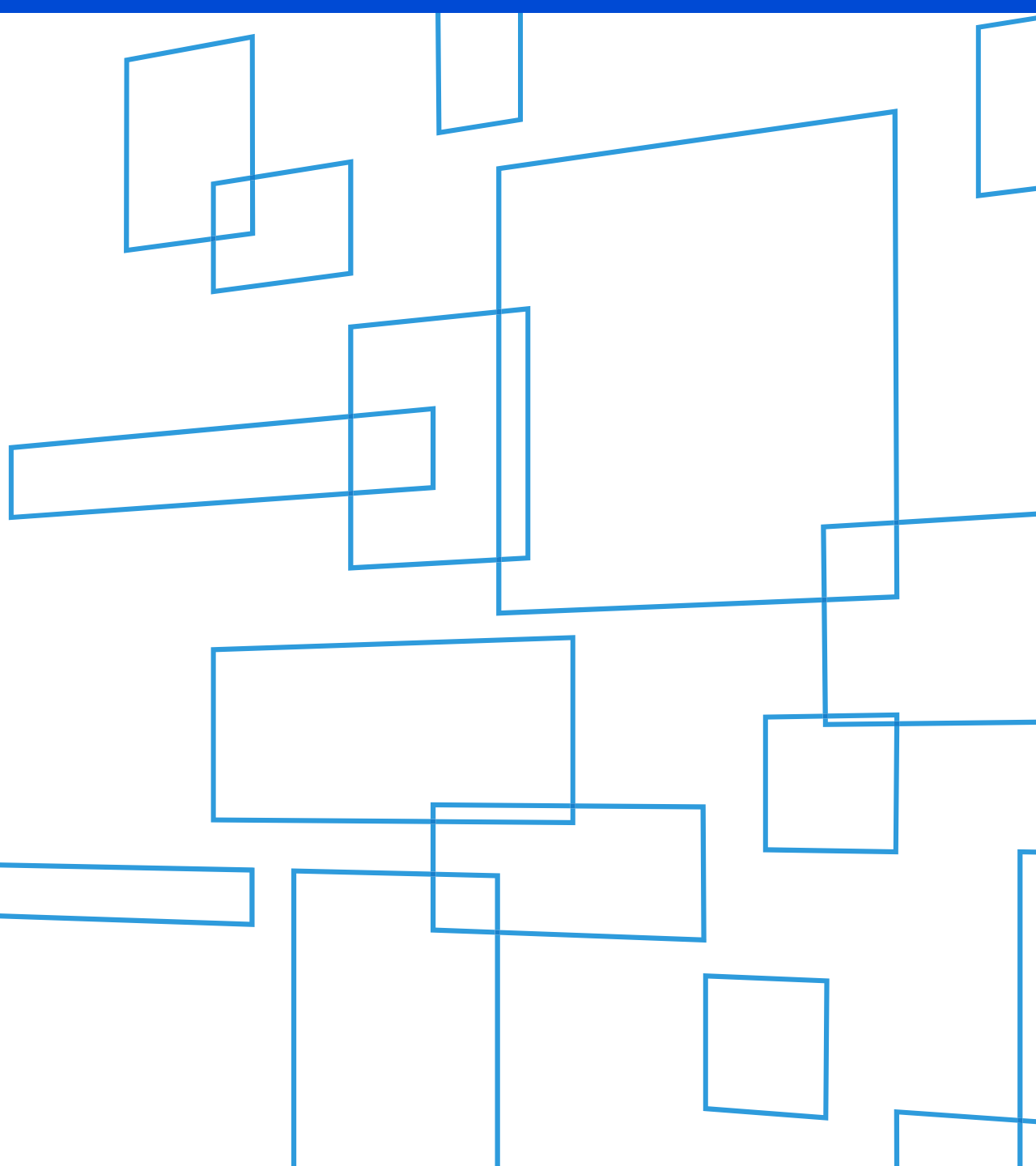
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- We will answer questions at the end of the presentation



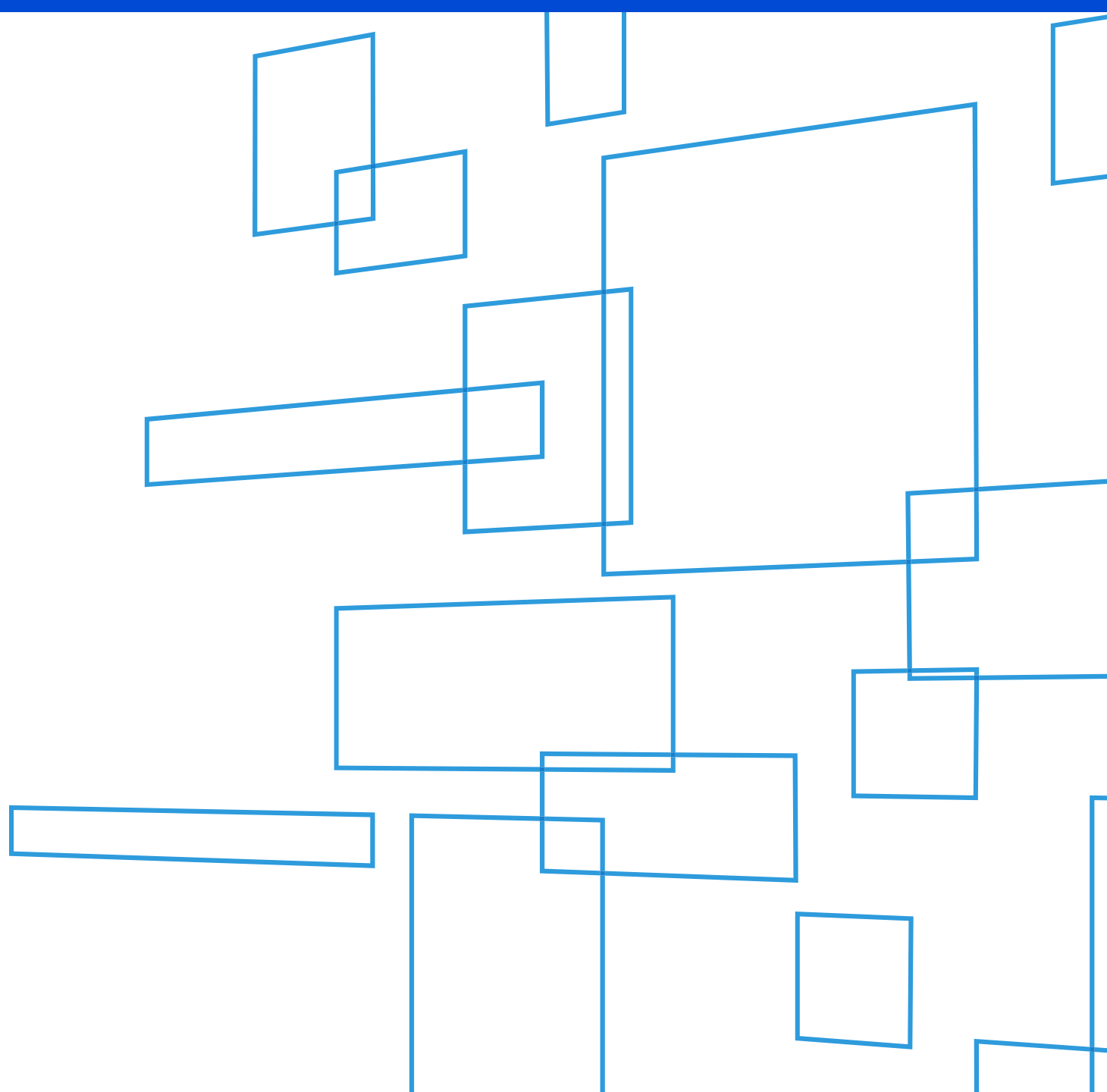
Welcome

Today's Speaker:

- Cleona Irvin
Program Analyst, High Cost

Other USAC Participants

- Habib Simab
Director, High Cost
- Sharmarke Ahmed
Senior Manager, High Cost
- Kianna Braxton-Johnson
Senior Manager, Internal Audit



Agenda

1. Improper Inclusion of Unallowable Items
2. Inadequate / Inaccurate Documentation
3. Improper Affiliate Transactions
4. Improper Allocation Methodology
5. Inaccurate Depreciation Calculation
6. Key Takeaways & Resources
7. Questions

Improper Inclusion of Unallowable Items

❖ Potential Errors

- Inclusion of expenses not necessary for the provision, maintenance, or upgrading of facilities and services for which the support is intended.
- Improper inclusion or allocation of non-regulated assets or expenses

Improper Inclusion of Unallowable Items

❖ Ineligible Items

- 47 CFR § 54.7
- FCC 15-133

❖ Best Practices

- Review accounting costs for unallowable and non-regulated items
- Maintain adequate documentation

Inadequate / Inaccurate Documentation

❖ Potential Errors

- Insufficient Continuing Property Records (CPRs)
- Insufficient supporting documentation for affiliate transactions, cost study balances and adjustments, expenses, and geocoded locations
- Inaccurate/Misclassified Assets, Expenses, liabilities, Access line and/or loops counts
- Reporting Errors (misapplication of Rules)

Inadequate / Inaccurate Documentation

❖ Error Detection

- Review Policies and Procedures (P&Ps)

❖ Best Practices

- Implement / update P&Ps as appropriate
- Confirm data available after software conversion, acquisition/merger, or other data-related event
- 47 CFR §54.320(b) and §32.12

Improper Affiliate Transactions

❖ Potential Errors

- Not observing a price ceiling when purchasing from an affiliate
- Not observing a price floor when providing services to an affiliate
- Insufficient documentation / record retention

Improper Affiliate Transactions

❖ Error Detection

- Compare pricing and costs related to transactions with affiliates versus fees for non-related entities

❖ Best Practices

- Policies, Procedures, Systems
- Sufficient documentation to support proper compliance (47 CFR §32.27)

Improper Affiliate Transaction: Best Practice

Transaction Type	Asset/Service Type	Annual Asset Value/ Annual Service Amount	Entity		Appropriate Pricing
			Transferring Entity	Recipient	
asset transfer	general asset	less than \$500,000	regulated carrier subsidiary	subsidiary regulated carrier	net book cost
		greater than \$500,000 (a)	regulated carrier subsidiary	subsidiary regulated carrier	no less than higher of FMV or NBC no higher than lower of FMV or NBC
	tariffed asset (b)	all	regulated carrier subsidiary	subsidiary regulated carrier	tariffed rate
	prevailing price asset (c)	all	regulated carrier subsidiary	subsidiary regulated carrier	prevailing price
service	general service	less than \$500,000	regulated carrier subsidiary	subsidiary regulated carrier	fully distributed cost
		greater than \$500,000 (a)	regulated carrier subsidiary	subsidiary regulated carrier	no less than higher of FMV or FDC no higher than lower of FMV or FDC
	tariffed service (b)	all	regulated carrier subsidiary	subsidiary regulated carrier	tariffed rate
	prevailing price service (c)	all	regulated carrier subsidiary	subsidiary regulated carrier	prevailing price

Notes:

(a) If the total aggregate annual value of the asset(s) or service(s) reaches or exceeds \$500,000 for the first time, the carrier must perform a market valuation to determine fair market value.

(b) Tariffed Assets are assets that are sold or transferred between a carrier and its affiliate pursuant to a tariff.

(c) In order to qualify for prevailing price valuation, sales of a particular asset or service to third parties must encompass greater than 25% of the total quantity of such product or service sold by an entity. Carriers shall apply this 25% threshold on an asset-by-asset and service-by-service basis rather than on a product line or service basis.

Improper Allocation Methodology

❖ Potential Errors

- Failure to use cost allocator
- Use of inaccurate factors
- Outdated inputs
- Failure to maintain supporting documentation
- Failure to use documented factors or methodology

Improper Allocation Methodology

❖ Error Detection

- Review accounting costs for de-regulated activity
- 47 CFR §64.901

❖ Best Practices

- Implement policies and procedures to approve underlying data used in development of allocation factors
- Maintain adequate documentation to support allocation factors

Inaccurate Depreciation Calculation

❖ Potential Errors

- Using month end balances to calculate depreciation
- Retired assets not removed and/or asset additions not included.
- Formula errors in the calculation.
- Rate used was not applicable to that asset type.
- Rate used was not approved by the state commission.

Inaccurate Depreciation Calculation

❖ Error Detection

- Review accounting costs for de-regulated activity
- See 47 CFR §32.2000(g)

❖ Best Practices

- Establish adequate controls
- Perform a review and reconciliation of historical data
- Enhance the preparation, review and approval processes
- Implement and maintain policies and procedures

Inaccurate Depreciation Calculation: Best Practice

Depreciation Expense Calculation

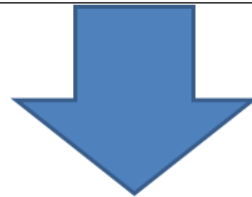
Monthly
Depreciation
Expense
Calculation

=

Monthly average
balance of the
associated plant
category

*

Annual depreciation rate
12 months



(Asset Balance on first day of the month + Asset Balance on the last day of the month)
2

Key Takeaways

1. Maintain Sufficient Documentation
2. Develop, Review, and Update Policies and Procedures, as Necessary
3. Stay Abreast of Updates from the FCC on Allowable Expenses and other High Cost regulations

Links

- ❖ [Common Audit Findings:](https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/)
<https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/>
- ❖ [Documentation for Auditors Checklist:](https://www.usac.org/wp-content/uploads/high-cost/documents/audit/hc-audit-information.pdf)
<https://www.usac.org/wp-content/uploads/high-cost/documents/audit/hc-audit-information.pdf>
- ❖ [FCC 15-133:](http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db1019/FCC-15-133A1.pdf)
http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db1019/FCC-15-133A1.pdf

Links (cont.)

- ❖ CAF Map: <https://data.usac.org/publicreports/caf-map/>
- ❖ Code of Federal Regulations (*highlighted Rules*):
<https://www.ecfr.gov/>
 - ❖ Intended use of USF: 47 CFR §54.7
 - ❖ CPRs: 47 CFR § 32.2000(e) and 32.2000(f)
 - ❖ Affiliate Transactions: 47 CFR § 32.27
 - ❖ Documentation Retention: 47 CFR § 54.320(b)
 - ❖ Record Keeping: 47 CFR §32.12
 - ❖ Cost Allocations: 47 CFR §64.901

Questions?



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