

# Avoiding Common Audit Findings

High Cost Program

December 12, 2025



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# Welcome

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## Today's Speakers:

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# Agenda

1. Improper Inclusion of Ineligible Items
  - Not Used for High Cost Purposes
  - Intended Use/Unallowable Expenses
2. Inadequate Documentation
  - Inaccurate Data
  - Misclassified Assets, Expenses, and/or Liabilities
3. Improper Affiliate Transactions
4. Improper Allocation Methodology
  - Inaccurate/Misclassified Access Line/Loop Counts
5. Inaccurate Depreciation Calculation
6. Appeal Process Reminder
7. Key Takeaways & Resources
8. Questions

# Improper Inclusion of Ineligible Items

## ❖ Potential Errors

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

# Improper Inclusion of Ineligible Items

## ❖ Ineligible Items references

- Intended Use Rule, 47 CFR § 54.7
- FCC 15-133, “*Intended Use Public Notice*”
- FCC 18-29 Order

## ❖ Best Practices

- Review accounting costs for unallowable and non-regulated items
- Ensure cost allocation to remove unallowable items from data submitted in High Cost filings
- Maintain adequate documentation – **10 years from the receipt of funding**

# Category of Expenses Excluded from USF (non-exhaustive list)

## FCC 15-133 Public Notice

Personal travel

Entertainment

Alcohol

Food and Beverage (except reasonable amount for work and work-related travel), including but not limited to meals to celebrate personal events, such as weddings, births, or retirements;

Membership fees and dues in clubs and organizations

Penalties or fines for statutory or regulatory violations; Penalties or fees for any late payments on debt, loans or other payments

Political contributions

Charitable donations

Scholarships

Sponsorships of conferences or community events

Gifts to employees

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.

# Category of Expenses Excluded from USF

## FCC 18-29 Report and Order

Artwork and other objects that possess aesthetic value

Corporate Aircraft

Watercraft

Off-road Vehicles (except reasonable business travel expenses or as necessary to access areas not reachable by road travel)

Personal Vehicles (any vehicle for personal use)

Tangible Property not logically related or necessary to offering voice or broadband service

Childcare

Cost of Operating Cafeterias/Dining Facilities

Housing Allowances



# Inadequate Documentation / Inaccurate Data

## ❖ Potential Errors

- Insufficient or Lack of Policies and Procedures
- 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)
- Not maintaining accurate records for 10 years from receipt of funding

# Inadequate Documentation / Inaccurate Data

## ❖ Potential Errors (cont'd)

- Insufficient Continuing Property Records (CPRs)
  - CPRs require the "identity, vintage, location and original cost of units of property" and "the description, location, date of placement, the essential details of construction and the original cost of the property record units."

*(See 47 CFR §§ 32.2000(e1i) and 32.000(f2iii), which specifies what is required on CPRs.)*

# Inadequate Documentation / Inaccurate Data

## ❖ 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 events
- Maintain Business Continuity and/or Disaster Recovery Plans
- 47 CFR §54.320(b) and §32.12

# Inadequate Documentation / Inaccurate Data

## ❖ Best Practices (cont'd)

- Establish a methodology to ensure CPRs are maintained in accordance with Rules and Orders;
- Enhance the preparation, review and approval processes over work-orders and expenses to ensure that costs are properly classified as assets and expenses;
- Enhance the preparation, review and approval processes related to the documentation and reporting of access lines and loop counts, and the expenses associated with them;
- Implement an internal control where all regulated, nonregulated and other cost study adjustments are reviewed for reasonableness and accuracy, as well as, receiving approval by management;
- Consider creating and maintaining a repository of important documents that are accessible to the appropriate users in the organization (e.g. Staking sheets, mapping files, detailed route allocations and network diagrams.)

# Questions?

# 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
- Reference 47 CFR § 32.27 for more detail

# 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 and 36.2(c))

# 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	net book cost
			subsidiary	regulated carrier	
		greater than \$500,000 (a)	regulated carrier	subsidiary	no less than higher of FMV or NBC
			subsidiary	regulated carrier	no higher than lower of FMV or NBC
	tariffed asset (b)	all	regulated carrier	subsidiary	tariffed rate
			subsidiary	regulated carrier	
service	general service	less than \$500,000	regulated carrier	subsidiary	fully distributed cost
			subsidiary	regulated carrier	
		greater than \$500,000 (a)	regulated carrier	subsidiary	no less than higher of FMV or FDC
			subsidiary	regulated carrier	no higher than lower of FMV or FDC
	tariffed service (b)	all	regulated carrier	subsidiary	tariffed rate
			subsidiary	regulated carrier	
	prevailing price service (c )	all	regulated carrier	subsidiary	prevailing price
			subsidiary	regulated carrier	

## 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 the third parties must encompass greater than 25% of the total quantity of such product of service sold by an entity. Carriers shall apply the 25% threshold on 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 and estimate assumptions

# Inaccurate Depreciation Calculation

## ❖ Common Errors

- Using month end balances to calculate depreciation
- Retired assets not removed and/or asset additions not included
- Formula errors in the calculation
- Using a rate inapplicable to that asset type
- Using a rate that was not approved by the state commission, (where applicable)

# Inaccurate Depreciation Calculation

## ❖ Error Detection

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

## ❖ Best Practices

- Calculate depreciation using average monthly balance
- 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

# Appeal Process Reminder

- Any party that wishes to file an appeal of a USAC decision must first seek review of that decision by appealing directly to USAC before filing an appeal with the FCC.
- USAC must receive your appeal within **60 days following the date when USAC issued the decision**. Appeals received after 60 days from the receipt of USAC decision will not be considered.
- Appeal must include a precise explanation of the relief sought
- Supporting documentation should be included
- See 47 C.F.R. § 54.719(b) and 47 C.F.R. § 54.720(a)

# Appeal Process Reminder

- In 2025, WCB issued decisions on 11 appeals. Top common rule violations included:
  - Inaccurate continuing property records
  - Improper leases with affiliates
  - Inadequate documentation to support allocations
- Review decisions at FCC's Electronic Comment Filing System – Docket 10-90

# 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 High Cost Program Rules and Regulations



# References

## ❖ Common Audit Findings:

<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>

## ❖ DA 98-855:

[https://transition.fcc.gov/Bureaus/Common\\_Carrier/RAO\\_Letters/1998/da980855.txt](https://transition.fcc.gov/Bureaus/Common_Carrier/RAO_Letters/1998/da980855.txt)

## ❖ FCC 15-133:

<https://docs.fcc.gov/public/attachments/FCC-15-133A1.pdf>

## ❖ FCC 16-33A1:

<https://docs.fcc.gov/public/attachments/FCC-16-33A1.pdf>

## ❖ FCC 18-29A1:

<https://docs.fcc.gov/public/attachments/FCC-18-29A1.pdf>

## ❖ FCC “Defining Recoverable Expenses for Rate of Return Providers”:

<https://www.fcc.gov/news-events/blog/2018/01/31/defining-recoverable-expenses-rate-return-providers>

## References (cont.)

- ❖ [Code of Federal Regulations](https://www.ecfr.gov/) (*highlighted Rules*):  
<https://www.ecfr.gov/>
- ❖ Intended use of USF: 47 CFR §54.7 and 47 CFR 54.7(c)
- ❖ CPRs: 47 CFR § 32.2000(e) and 32.2000(f)
- ❖ Documentation Retention: 47 CFR § 54.320(b)
- ❖ Record Keeping: 47 CFR §32.12
- ❖ Cost Allocations: 47 CFR §64.901

# Questions?



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