



Board of Directors

Supply Chain Audit Reports

Briefing Book

Available for Public Use

Tuesday, October 29, 2024

Universal Service Administrative Company

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

Washington, DC 20005

Summary of the Supply Chain Audit Report Released: July 2024.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A CenturyLink United Telephone Co. of Pennsylvania (FKA Embarq)	0	<ul style="list-style-type: none"> Not applicable. 	\$10,760,404	\$0	\$0	N/A
Total	0		\$10,760,404	\$0	\$0	

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Attachment A

SC2023BE006

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*CenturyLink United Telephone Co. of Pennsylvania
FKA Embarq ID: SC2023BE006*

Performance audit for the Universal Service Fund Supply Chain Audit Program related to High Cost Disbursements made from January 1, 2021 to December 31, 2021; and E-Rate disbursements made from July 1, 2021 to June 30, 2022; and Rural Health Care disbursements made from July 1, 2021 to June 30, 2022.

Prepared for: Universal Service Administrative Company

As of Date: June 20, 2024

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EXECUTIVE SUMMARY

June 20, 2024

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 Supply Chain performance audit objective relative to CenturyLink United Telephone Co. of Pennsylvania FKA Embarq (Universal Service Fund (“USF”) Recipient, Study Area Code (“SAC”) 170209 or “CenturyLink United Telephone Co. of Pennsylvania FKA Embarq”) Service Provider Identification Number (“SPIN”) 143001394, for disbursements of \$10,562,352 made from the Universal Service Fund’s High Cost Program from January 1, 2021 to December 31, 2021; and disbursements of \$2,081 made from the E-Rate Program from July 1, 2021 to June 30, 2022; and disbursements of \$195,971 made from the Rural Health Care (“RHC”) Program from July 1, 2021 to June 30, 2022. Our work was performed from June 1, 2023, to June 20, 2024 and our results are as of June 20, 2024.

We conducted this 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 objectives.

In addition to GAGAS, we conducted this 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 performance audit was to evaluate the USF Recipient’s compliance with the Federal Communications Commission’s (“FCC”) *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order*, rule 47 C.F.R. § 54.10 (collectively, the “FCC Rules”) relative to disbursements of \$10,562,352 made from the High Cost Program from January 1, 2021 to December 31, 2021, and disbursements of \$2,081 made from the E-Rate Program from July 1, 2021 to June 30, 2022; and disbursements of \$195,971 made from the Rural Health Care (“RHC”) Program from July 1, 2021 to June 30, 2022.

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

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

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

This report is intended solely for the use of the Universal Service Administrative Company, the USF Recipient, 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,

The image shows a handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, professional style.

cc: Radha Sekar, USAC Chief Executive Officer
Victor Gaither, USAC Vice President of Program Management, High Cost
Craig Davis, USAC Vice President of Program Management, E- Rate
Mark Sweeney, USAC Vice President of Program Management, Rural Health Care

LIST OF ACRONYMS

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
BMIC	Basic Maintenance of Internal Connections
Beneficiary	School, Library or Rural Health Care Facility that received equipment or services from the Service Provider which is the subject of this audit
C.F.R.	Code of Federal Regulations
CACM	Connect America Cost Model
CLLI	Common Language Location Identification
COE	Central Office Equipment
Century Link or USF recipient	CenturyLink United Telephone Co. of Pennsylvania FKA Embarq
Covered List Companies	Huawei Technologies Company, ZTE Corporation, Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, and Dahua Technology Company, and their parents, affiliates, and subsidiaries to the extent they were included on the Covered List for the applicable audit period.
Covered List	A list, published and maintained by the FCC's Public Safety and Homeland Security Bureau, of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States or the security and safety of United States persons.
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
FCC Form 463	Rural Health Care Invoice to USAC for reimbursement
FCC Form 473	Service Provider Annual Certification Form
FRN	Funding Request Number
G/L	General Ledger
MIBS	Managed Internal Broadband Services
NMS	Network Management Software
RHC	Rural Health Care
SAC	Study Area Code
SPI	Service Provider Invoice form submitted for E-Rate reimbursement
TB	Trial Balance
TPUC	Telecommunications Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Moss Adams LLP's performance audit procedures identified no audit findings.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation operating under the FCC’s direction pursuant to 47 C.F.R. Part 54. USAC is the permanent administrator of the Universal Service Fund which includes four support mechanisms: High Cost, Lifeline, RHC, and E-Rate. With these four support mechanisms, the FCC strives to ensure that people in the United States have affordable access to advanced telecommunications services.

On November 22, 2019, the Federal Communications Commission (“FCC”) adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, which adopted a rule, codified at 47 C.F.R. § 54.9, which prohibits the use of any funds from the Universal Service Fund (“USF”) to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company posing a national security threat to the integrity of communications networks or the communications supply chain.¹ On December 10, 2020, the FCC adopted the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order* to implement the Secure and Trusted Communications Networks Act of 2019.² The *Second Report and Order* adopted a rule, codified at 47 C.F.R. § 54.10, which prohibits the use of certain federal subsidies, including USF funds, to purchase, rent, lease, or otherwise obtain any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, identified and published on the “Covered List.”³

The “Covered List” is a list of covered communications equipment and services that are deemed to pose an unacceptable risk to the national security of the United States and the safety of United States persons.⁴ The FCC’s Public Safety and Homeland Security Bureau publishes and maintains the Covered List and may update the list at any time. The current list can be found at <https://www.fcc.gov/supplychain/coveredlist> Please note that the scope for this audit will be limited to USF support, funds disbursed under the Congressional Response (appropriated) programs were not in scope for this audit.

USAC engaged Moss Adams LLP to conduct a performance audit relating to the USF Recipient’s compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order*, rule 47 C.F.R. § 54.10, relative to disbursements \$10,562,352 made from the High Cost Program from January 1, 2021 to December 31, 2021, and disbursements of \$2,081 made from the E-Rate Program from July 1, 2021 to June 30, 2022; and disbursements of \$195,971 made from the Rural Health Care (“RHC”) Program from July 1, 2021 to June 30, 2022.

¹ *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Report and Order, Further Notice of Proposed Rulemaking, and Order, 34 FCC Rcd 11423 (2019); 47 C.F.R. Section 54.9.

² *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs*, WC Docket No. 18-89, Second Report and Order, 35 FCC Rcd 14284 (2020).

³ 47 C.F.R. Section 54.10.

⁴ *Public Safety and Homeland Security Bureau Announces Publication of the List of Equipment and Services Covered by Section 2 of The Secure Networks Act*, WC Docket No. 18-89, Public Notice, DA 21-309 (2021).

USF Recipient Overview

CenturyLink United Telephone Co. of Pennsylvania FKA Embarq Service Provider Identification Number (“SPIN”) 143001394, the subject of this performance audit, is located in Monroe, Louisiana and does business as CenturyLink United Telephone Co. of Pennsylvania FKA Embarq. The USF recipient is a stand-alone entity. CenturyLink United Telephone Co. of Pennsylvania FKA Embarq provides telecommunications services including telephone and internet to its customers in Pennsylvania.

High Cost

In the table below, we list the High-Cost support disbursed by USAC to the USF Recipient during the twelve-month period from January 1, 2021 to December 31, 2021, by High-Cost fund type:

High-Cost Fund Type	Amount
CACM	\$10,562,352
TOTAL	\$10,562,352

Source: USAC open data

The USF Recipient received High Cost support from January 1, 2021, to December 31, 2021, based on the CACM which calculates an amount of universal service support by taking cost calculated by the Cost to Serve Module for a given set of inputs (i.e., a Solution Set) along with user-defined upper and lower thresholds. These calculations are based on granular cost information about which areas require support given those user-specified upper and lower thresholds.

E-Rate

In the table below, we list the E-Rate support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2021, to June 30, 2022, by E-Rate service type:

E-Rate Service Category	E-Rate Service Type	Amount
Category One	Data Transmission and/or Internet Access	\$2,081
	TOTAL	\$2,081

Source: USAC open data

E-Rate Category One includes the services needed to support broadband connectivity to schools and libraries. Data transmission and/or Internet access services are eligible in Category One.⁵

RHC

In the table below, we list the RHC support disbursed by USAC to the USF Recipient during the twelve-month period from July 1, 2021 to June 30, 2022, by RHC Program Fund:

⁵ Funding Year 2021 Eligible Services List, WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

RHC Program Fund	Amount
Healthcare Connect Fund	\$195,971
TOTAL	\$195,971

Source: USAC open data

The RHC Program funds two types of services: Voice and Data services via the Telecommunications Program and Broadband services via the Healthcare Connect Fund.

OBJECTIVES

The audit objective of this performance audit was to evaluate the USF Recipient’s compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order*, rule 47 C.F.R. § 54.9 and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order*, rule 47 C.F.R. § 54.10, relative to disbursements of \$10,562,352 made from the High-Cost Program from January 1, 2021 to December 31, 2021; and disbursements of \$2,081 made from the E-Rate Program from July 1, 2021 to June 30, 2022; and disbursements of \$195,971 made from the Rural Health Care (“RHC”) Program from July 1, 2021, to June 30, 2022.

SCOPE

The scope of this performance audit included, but was not limited to the reconciliation of USF support received to the USF recipient’s underlying financial data and related expenditure, review of the Continuing Property Records (“CPRs”), and G/L details to identify transactions with details that match with the names of the Covered List Companies; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendor lists, network vendor transactions and invoices; and physical inspection to determine whether USF funds were used for equipment or services produced or provided by the Covered List Companies. The scope of our work relates to disbursements made from the High-Cost Program from January 1, 2021, to December 31, 2021; disbursements made from the E-Rate Program from July 1, 2021, to June 30, 2022; and disbursements made from the RHC Program from July 1, 2021, to June 30, 2022.

Our performance audit includes, but is not limited to, the following focus areas:

1. Annual Supply Chain Certification
2. Reconciliation of USF Expenditures
3. Review of Asset records
4. Data analysis of relevant Financial Records
5. Network Architecture Review

PROCEDURES

1. Annual Supply Chain Certification

Moss Adams obtained the FCC Form 481 filed to support the USF disbursements under audit and verified that:

For section 54.9, the USF Recipient certified that “no universal service support has been or will be used to purchase, obtain, maintain, improve, modify or otherwise support any equipment or services produced or provided by any company designated by Federal Communications Commission as posing a national security threat to the integrity of communications networks or the communications supply chain since the effective date of designations.”

For section 54.10 the USF Recipient certified that no Federal subsidy made available through a program administered by the Commission that provides funds to be used for the capital expenditures necessary for the provision of advanced communications services has been or will be used to purchase, rent, lease, or otherwise obtain, any covered communications equipment or service, or maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained, as required by 47 C.F.R. § 54.10.

2. Reconciliation of USF expenditure

Moss Adams reconciled USF disbursements to recipient records.

E-Rate

Moss Adams notes that no funds for E-Rate were received by the USF Recipient because the applicants filed a Form 472 BEAR, which means the funds were sent directly to the applicant from USAC with service providers not involved in the Form 472 Bear Process.

RHC

Moss Adams notes that for RHC services, the RHC services were “finished” services delivered over existing network facilities. To the extent special construction was required, it was performed in the ordinary course of business using general inventory, materials, and supplies. The USF Recipient had no separate accounting for inventory, materials, supplies, or construction activities as of June 30, 2022, for projects funded with RHC funds.

High Cost

Moss Adams obtained and reviewed evidence of projects completed using USF support and determined whether elements of the project expenditures involved network equipment and services that involved Covered Companies or companies on the covered list. Moss Adams also analyzed USF Recipient’s financial and transactional information (including financial statements, G/L accounts for vendor payments, invoices, contracts, and work order details) to identify potential transactions for equipment or services with Covered Companies. Finally, Moss Adams reviewed recipient asset listings and related expense report documentation and determined whether network elements that are included in the FCC’s published list of communication equipment and services from Covered Companies exist.

3. Asset Records

High Cost

Moss Adams obtained the Central Office Equipment listings and reconciled the amounts to the TB or G/L for accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) to ensure all telecommunications network equipment was accounted for in USF Recipient’s records. Moss Adams reviewed the TPUC distributions to obtain reasonable assurance that the assets on the list could not be traced to the Covered Companies. Moss Adams selected a non-statistical sample of 70 expense distributions and requested supporting invoices to verify that the equipment detail in the invoices matched the distribution listing details and that no equipment or services were produced or provided by the Covered Companies. Moss Adams also searched the G/L for the TPUC account which would have any work-in-progress items that had yet been added to the fixed asset listing.

E-Rate

USF Recipient had no separate accounting for inventory, materials and supplies, or construction activities as of June 30, 2022, for services provided with E-Rate funds, therefore, Moss Adams did not select any items related specifically to E-Rate. Instead, Moss Adams reviewed the TPUC distributions to identify potential transactions with Covered Companies in addition to testing expense distributions and invoice sampling for selected expense accounts.

RHC

USF Recipient had no separate accounting for inventory, materials, supplies, or construction activities as of June 30, 2022, for projects funded with RHC funds, therefore, Moss Adams did not select any items related specifically to RHC. Instead, Moss Adams reviewed the TPUC distributions to identify potential transactions with Covered Companies in addition to testing expense distributions and invoice sampling for selected expense accounts.

4. Data Analysis

Moss Adams obtained general ledger activity files for the funding periods and reviewed them to verify that there were no transactions involving the Covered List Companies.

5. Network Architecture

Moss Adams reviewed network diagrams and conducted a physical inspection of the USF Recipient’s network to validate the physical existence of the type of COE assets at two central offices, including the primary central office supporting the broader network, and to confirm that the manufacturer and model in the COE property listing provided matched the equipment in service. We reviewed the COE property listing and physical COE assets to verify that key indicators such as asset manufacturer, vendor, and model could not be traced to Covered Companies. In addition to the COE property listing, Moss Adams also obtained a network asset listing from the USF Recipient. Moss Adams reviewed this network asset listing as well to obtain reasonable assurance that no assets could be traced to Covered Companies. Moss Adams notes that the USF Recipient has a centralized network management software platform but could not provide a copy of their NMS’s output with equipment manufacturers names and CLLI due to government defense contract requirements. As such, Moss Adams was unable to obtain and review the internal network scan.

RESULTS

FINDINGS, RECOMMENDATIONS AND USF RECIPIENT RESPONSES

Moss Adams's performance audit procedures identified no audit findings. Refer to the Conclusion section below.

CONCLUSION

Moss Adams's evaluation of the USF Recipient's compliance with the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order* and 47 C.F.R. § 54.9, and *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order*, rule 47 C.F.R. § 54.10, relevant to the disbursements made from the High Cost Program from January 1, 2021 to December 31, 2021; and the disbursements made from the E-Rate and RHC Programs from July 1, 2021 to June 30, 2022 identified no audit findings.

** This concludes the audit report. **