



Board of Directors

Supply Chain Audit Reports

Briefing Book

January 28, 2025

Available for Public Use

Universal Service Administrative Company

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

Washington, DC 20005

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A Wilkes Telephone Membership Corporation	0	<ul style="list-style-type: none"> Not applicable. 	\$8,521,444	\$0	\$0	N/A
Total	0		\$8,521,444	\$0	\$0	

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Attachment A

SC2023BE007

Available For Public Use

Wilkes Telephone Membership Corporation
Audit ID: SC2023BE007

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.

Prepared for: Universal Service Administrative Company

As of Date: September 13, 2024

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EXECUTIVE SUMMARY

September 13, 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 Wilkes Telephone Membership Corporation (Universal Service Fund (“USF”) Recipient, Study Area Code (“SAC”) 230510 or “Wilkes Telephone”) with Service Provider Identification Number (“SPIN”) 143001505, for disbursements of \$8,290,824 made from the USF’s High Cost Program from January 1, 2021 to December 31, 2021; and disbursements of \$230,620 made from the E-Rate Program from July 1, 2021 to June 30, 2022. Our work was performed from June 12, 2023 to August 31, 2023 and our results are as of September 13, 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”) rules set forth in 47 C.F.R. § 54.9 and 47 C.F.R. § 54.10 and related supply chain orders (collectively, the “FCC Rules”) relative to disbursements of \$8,290,824 made from the HighCost Program from January 1, 2021 to December 31, 2021, and disbursements of \$230,620 made from the E-Rate 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 supply chain rules. Our responsibility is to evaluate the USF Recipient’s compliance with the FCC Rules based on our audit objective.

Based on the test work performed, our procedures disclosed one audit finding with no monetary impact discussed in the Audit Results section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period.

Moss Adams 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,

A handwritten signature in cursive script that reads "Moss Adams LLP".

Moss Adams LLP

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, Schools, and Libraries

List of Acronyms

Acronym	Definition
ACAM_II	Alternative Connect America Cost Model II
BEAR	Billed Entity Applicant Reimbursement form submitted for E-Rate reimbursement
Beneficiary	School, library, or health care facility that received equipment or services from the Service Provider which is the subject of this audit
BMIC	Basic Maintenance of Internal Connections
CAFII AUC	Connect America Fund Phase II Auction
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Inter-carrier Compensation
C.F.R.	Code of Federal Regulations
COE	Central Office Equipment
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.
CPRs	Continuing Property Records
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
HCL	High-Cost Loop
MIBS	Managed Internal Broadband Services
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
Wilkes Telephone or USF Recipient	Wilkes Telephone Membership Corporation

AUDIT RESULTS AND RECOVERY ACTION

Description	Rule Violation	Quantifiable Monetary Effect	Estimated USF Monetary Effect
Supporting documentation for a sample of assets on the Continuing Property Records was not available for review and testing.	47 C.F.R. § 54.320(b) ¹	No	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 230510, 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.

As there is no monetary effect for this finding, the total recommended recovery is zero.

¹[47 C.F.R. § 54.320\(b\)](#) states that “[a]ll 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.”

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.

In November 2019, the Federal Communications Commission (“FCC”) released 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 that pose a national security threat to the integrity of communications networks or the communications supply chain.² In this order, the FCC explicitly stated that USF recipients must be able to **affirmatively demonstrate** that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by covered companies (*emphasis added*). In December 2020, the FCC released 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 2019.³ 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.”⁴

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 or the security and safety of United States persons.⁵ The FCC’s Public Safety and Homeland Security Bureau publishes and maintains the Covered List and may update the list at any time.⁶ The current list can be found at <https://www.fcc.gov/supplychain/coveredlist>. Please note that the scope for this audit was limited to

² *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. § 54.9.

³ *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). 47 C.F.R. § 54.10.

⁴ *List of Equipment and Services Covered By Section 2 of The Secure Networks Act | Federal Communications Commission* (fcc.gov).

⁵ *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).

⁶ 47 C.F.R. § 1.50002.

USF support, funds disbursed under the Congressional Response (appropriated) programs were not in scope for this audit.

USAC engaged Moss Adams 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 of \$8,290,824 made from the High Cost Program from January 1, 2021, to December 31, 2021 and disbursements of \$230,620 made from the E-Rate Program from July 1, 2021, to June 30, 2022.

USF Recipient Overview

Wilkes Telephone (SPIN: 143001505), the subject of this performance audit, is located in Wilkesboro, NC and does business as Wilkes Communications. The USF Recipient is a stand-alone entity with a subsidiary, RiverStreet Networks, that provides services to customers outside of the Wilkes County service area. Wilkes Telephone and its subsidiary provide internet, phone, video, and security services to their customers.

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
CAF BLS	\$5,425,926
HCL	\$2,184,570
CAF ICC	\$680,328
TOTAL	\$8,290,824

Source: USAC

The USF Recipient received High Cost support from January 1, 2021 to December 31, 2021, based on legacy funds driven by historical data and modernized funds driven by deployment obligations.

HCL, CAF ICC and CAF BLS funds disbursed in 2021, were based on forms submitted in 2020 that encompass 2019 data (line count data and totals of specific pre-designated G/L Accounts including all asset accounts that roll into the Telecom Plant in Service as well as specific deferred liabilities and operating expenses subject to the allocation between regulated and non-regulated activities).

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	\$230,620
	TOTAL	\$230,620

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.⁷

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 \$8,290,824 made from the High-Cost Program from January 1, 2021, to December 31, 2021, and disbursements of \$230,620 made from the E-Rate 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 and disbursements made from the E-Rate 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 and FCC Form 473 filed in respect of 2021 and verified that:

For 47 C.F.R. § 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

⁷ *Funding Year 2021 Eligible Services List*, WC Docket No. 13-184, 34 FCC Rcd 11959 (15).

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 47 C.F.R. § 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 obtained details of USF support received and reconciled the support to the USF Recipient’s underlying financial data. Moss Adams also analyzed transaction data and reviewed a sample of underlying documentation to verify that USF expenditures were adequately supported and did not include any expenditure items for network equipment and services that can be traced to Covered List Companies.

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 can be traced to Covered List Companies. Moss Adams also analyzed recipients’ financial and transactional information (including financial statements, general ledger accounts for vendor payments, invoices, contracts, and work order details) to identify potential transactions for equipment or services with Covered List Companies. Finally, Moss Adams reviewed recipient asset listings and related expense reports documentation and determined whether network elements are included in FCC’s Covered List.

3. Review of Asset Records

High Cost

Moss Adams obtained the COE CPRs and reconciled the amounts to the Trial Balance or G/L for accounts 2210 (Central Office – Switching) and 2230 (Central Office – Transmission) to ensure all telecommunications network equipment was accounted for in the carrier’s records. Moss Adams reviewed the COE CPRs to obtain reasonable assurance that assets on the list could not be traced to the Covered List Companies. Moss Adams selected a non-statistical sample of 70 assets and requested supporting invoices to verify that the equipment details in the invoices matched the CPR details and that no equipment or services were produced or provided by the Covered List 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 CPRs.

Moss Adams noted Wilkes Telephone had an open balance for TPUC in the 2021 G/L. Moss Adams obtained the work-in-progress listing and reconciled the total to the Trial Balance or G/L for account 2003 (TPUC) to ensure that it was a complete listing. Moss Adams selected five out of five work-in-progress items and requested detailed listings of them to verify that no equipment or services were produced or provided by the Covered List Companies.

E-Rate

Moss Adams selected three out of three Funding Request Numbers for testing. This represents 100% coverage of the disbursed dollars and represents each type of service that was funded for our audit period.

For the three selected FRNs with Category One services, Moss Adams obtained the underlying Wilkes Telephone bills that support the BEAR/SPI forms that were submitted to USAC for reimbursement. Moss Adams reviewed the bills to determine if any equipment was included as part of the Category One services. Moss Adams also inquired of Wilkes Telephone to understand if any equipment was provisioned to the Beneficiary as part of this service. Wilkes Telephone noted that no equipment was provisioned to the Beneficiary as part of the Category One service, and Wilkes Telephone confirmed that any equipment used to provide the service was included in the network documentation provided. Moss Adams reviewed the Wilkes Telephone network, which was used to provide the Category One service, as described in the Network Architecture section below.

4. Data Analysis of Relevant Financial Records

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 Review

Moss Adams reviewed network diagrams and conducted a physical inspection of Wilkes Telephone network to validate the physical existence of the type of COE assets at four central offices, including the primary central office supporting the broader network and to confirm that the manufacturer and model in the COE CPR details provided matched the equipment in service. We reviewed the COE CPR details and physical COE assets to verify that key indicators such as asset manufacturer, vendor and model could not be traced to Covered List Companies. In addition to the COE CPRs, Moss Adams also obtained a network asset listing from Wilkes Telephone. Moss Adams noted this listing was extracted from a network monitoring tool. Moss Adams reviewed this network asset listing as well to obtain reasonable assurance that no assets could be traced to Covered List Companies.

DETAILED AUDIT FINDING

Audit Finding #1: Document Retention

Condition

To verify that equipment on the CPR did not relate to Covered List Companies, Moss Adams selected a sample of assets in line with the sampling methodology outlined in the audit scope and requested supporting documentation. Wilkes Telephone was not able to provide invoices or other documentation for certain assets selected for testing. This is a violation of the FCC rule 47 C.F.R. § 54.320(b) which requires all eligible telecommunications carriers to retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules for a minimum of 10 years.⁸

At the time of this audit in the year 2023, the assets had been on the books for nine years requiring that the supporting documentation be available for one more year.

Cause

As a part of Moss Adams' testing of continuing property records related to the high cost program, we requested 70 copies of invoices to substantiate assets included in the listing. Wilkes Telephone was not able to provide invoice records for 56 assets acquired before the year 2014 because of the archival of invoices received before this date. We selected 56 additional invoices for testing and Wilkes was not able to provide invoice records for 14 assets acquired before the year 2014.

Effect

The lack of relevant documentation did not impact our audit procedures and conclusions for Wilkes Telephone's 2021 and 2022 USF support because Moss Adams performed alternative procedures including a review of the general ledger to determine that there were no potential transactions with Covered List Companies. Therefore there is no monetary impact to this finding. However, this is an instance of noncompliance with FCC requirements around Compliance and Record Keeping outlined in 47 C.F.R. § 54.320.

Recommendation

We recommend Wilkes Telephone implements a policy that supporting documentation, including invoice records, be retained to demonstrate compliance with FCC rules, and made readily accessible for at least 10 years in line with the rule referenced above for all assets acquired with USF for the High Cost program.

⁸ See 47 C.F.R. § 54.320(b)(2021).

USF Recipient Response

Wilkes Telephone Membership Corporation agrees with Moss Adams' finding. Previously, the company did not have sufficient procedures in place to make sure that FCC rule 47 C.F.R. § 54.320(b) was followed. The company now has implemented procedures going forward that meet the FCC requirements.

CONCLUSION

Moss Adams' 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*, 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, 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 Program from July 1, 2021 to June 30, 2022; identified one audit finding outlined earlier in this report.

**** This concludes the audit report.****

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment B TelAlaska Cellular, Inc.	1	<ul style="list-style-type: none"> No significant findings. 	\$833,868	\$5,514	\$5,514	N
Total	1		\$833,868	\$5,514	\$5,514	

Attachment B

SC2023BE004

TelAlaska Cellular, Inc.
Audit ID: SC2023BE004

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.

Prepared for: Universal Service Administrative Company

As of Date: October 8, 2024

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EXECUTIVE SUMMARY

October 8, 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 TelAlaska Cellular, Inc. SAC 619013 (Universal Service Fund (“USF”) Recipient or “TelAlaska”) Service Provider Identification Number (“SPIN”) 143034378, for disbursements of \$833,868 made from the USF’s High Cost Program from January 1, 2021 to December 31, 2021. Our work was performed from July 10, 2023, to October 8, 2024 and our results are as of October 8, 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 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”) rules set forth in 47 C.F.R. § 54.9 and 47 C.F.R. § 54.10 and related supply chain orders (collectively, the “FCC Rules”) relative to disbursements of \$833,868 made from the High-Cost Program from January 1, 2021 to December 31, 2021.

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

Based on the test work performed, our procedures disclosed one audit finding discussed in the Audit Results section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period.

Moss Adams 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. It 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,

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Moss Adams LLP

cc: Radha Sekar, USAC Chief Executive Officer
Victor Gaither, USAC Vice President of Program Management, High Cost

LIST OF ACRONYMS

Acronym	Definition
C.F.R.	Code of Federal Regulations
Covered equipment	Equipment including telecommunications and video surveillance equipment and Information security products, solutions, and services supplied or manufactured by Covered List Companies
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.
CPRs	Continuing Property Records
FCC	Federal Communications Commission
FCC Form 481	Carrier Annual Reporting Data Collection Form
FCC Rules	Federal Communications Commission’s (“FCC”) <i>Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs First Report and Order</i> , rule 47 C.F.R. § 54.9 and <i>Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order</i> , rule 47 C.F.R. § 54.10
G/L	General Ledger
TPUC	Telecommunications Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund
TelAlaska or USF Recipient	TelAlaska Cellular, Inc.

AUDIT RESULTS AND RECOVERY ACTION

Description	Rule Violation	Quantifiable Monetary Effect	High Cost Fund distribution January 1, 2021 to December 31, 2021	Estimated USF High Cost fund Monetary Effect
				AK Plan
Covered Equipment that was purchased before the effective ¹ date of the supply chain rules and before the designation of the covered companies was maintained with USF support after the supply chain rules went into effect.	47 C.F.R § 54.9; 47 C.F.R § 54.10	Yes	\$833,868	\$5,514

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 619013, 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.

¹ **Section 54.9.**

- Effective January 3, 2020, under [47 C.F.R. § 54.9](#), “No universal service support may be used 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.”
- Effective June 30, 2020, Huawei and ZTE were designated as companies that pose a national security threat to the communications network and supply chain (“Covered Companies”).

Section 54.10.

- [47 C.F.R. § 54.10](#) states that a Federal subsidy made available through a program administered by the FCC that provides funds for capital expenditures necessary to provide advanced communications service (defined in [47 C.F.R. § 1.50001\(a\)](#)) as high-speed, switched, broadband telecommunications capability that enables users to originate and receive high-quality voice, data, graphics, and video telecommunications using any technology with connection speeds of at least 200 kbps in either direction) may not be used to: (1) Purchase, rent, lease, or otherwise obtain any covered communications equipment or service; or (2) Maintain any covered communications equipment or service previously purchased, rented, leased, or otherwise obtained.
- On March 12, 2021, the FCC placed Huawei, ZTE, Hytera, Hangzhou Hikvision, and Dahua on a [list of covered equipment or services](#) (“Covered List”) as amended.
- 47 C.F.R. § 54.10(a) is effective May 12, 2021 (60 days after the Covered List was released).

	AK Plan (A)	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	\$5,514	\$5,514	N/A
Mechanism Total	\$5,514	\$5,514	N/A

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.

In November 2019, the Federal Communications Commission (“FCC”) released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Report and Order* adopting a rule (47 C.F.R. § 54.9)² 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 companies found to pose a national security threat to the integrity of communications networks or the communications supply chain. In this order, the FCC explicitly stated that USF recipients must be able to **affirmatively demonstrate** that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by covered companies. In December 2020, the FCC released the *Protecting Against National Security Threats to the Communications Supply Chain Through FCC Programs Second Report and Order* adopting a rule (47 C.F.R. § 54.10)³ to implement the Secure and Trusted Communications Networks Act of 2019, which prohibits prospective 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 on the FCC issued “Covered List”, released on March 12, 2021⁴ (and updated as needed).

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 safety of United States persons.⁵ 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 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*,

² *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. § 54.9.

³ *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. § 54.10.

⁴ *List of Equipment and Services Covered By Section 2 of The Secure Networks Act | Federal Communications Commission* (fcc.gov)

⁵ *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).

rule 47 C.F.R. § 54.10, relative to disbursements of \$833,868 made from the High Cost Program from January 1, 2021 to December 31, 2021.

USF Recipient Overview

TelAlaska (SPIN: 143034378), the subject of this performance audit, is located in Anchorage, AK and does business as Fastwyre Broadband. TelAlaska provides telecommunications services including telephone and broadband to its customers in Alaska.

High Cost

In the table below is 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 ⁶	Amount
Alaska Plan	\$833,868
TOTAL	\$833,868

Source: USAC

The USF Recipient received High Cost support from January 1, 2021 to December 31, 2021, based on modernized funds driven by deployment obligations.

High Cost funds, disbursed in 2021, were based on the FCC support authorization public notice and subject to deployment obligations.

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 \$833,868 made from the High Cost Program from January 1, 2021 to December 31, 2021.

SCOPE

The scope of this performance audit included, but was not limited to, 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; review of internal network diagrams and internal scan outputs, if available; review of vendor policies, approved vendors 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.

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 47 C.F.R. § 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 47 C.F.R. § 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.”

As discussed in Detailed Audit Finding #1 below, the Company provided a listing of Covered List Company equipment in its network that it is working to remove. This equipment is listed in Attachment A.

2. Reconciliation of USF expenditure

Moss Adams reconciled USF disbursements to recipient records.

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 can be traced to Covered List Companies. Moss Adams also analyzed recipients’ financial and transactional information (including financial statements, general ledger accounts for vendor payments, invoices, contracts, work order details) to identify potential transactions for equipment or services with Covered List Companies. Finally, Moss Adams reviewed recipient asset listings and related expense reports documentation and determined whether network elements are included in FCC’s Covered List.

3. Review of Asset Records

Moss Adams obtained the CPRs and reconciled the amounts to the Trial Balance to ensure all telecommunications network equipment was accounted for in the carrier's records. Moss Adams reviewed the CPRs to determine if any of the assets could be traced to the Covered List Companies. Moss Adams selected a non-statistical sample of 70 assets and requested supporting invoices to verify that the equipment detail in the invoices matched the CPR details. MA also verified that invoices supporting equipment did not relate to the Covered List Companies. See Audit Finding #1.

Moss Adams noted TelAlaska did not have an open balance for TPUC in the 2021 G/L.

4. Data Analysis of Relevant Financial Records

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

5. Network Architecture Review

Moss Adams reviewed network diagrams, performed a limited network scan and conducted a physical inspection of TelAlaska's network to validate the physical existence of the types of assets at three central offices, including the primary central office supporting the broader network to confirm that the manufacturer and model in the CPR details provided matched the equipment in service. We reviewed the CPR details and physical assets to verify that key indicators such as asset manufacturer, vendor and model could not be traced to Covered List Companies. Moss Adams reviewed the CPRs as well to obtain reasonable assurance that no assets could be traced to Covered List Companies.

DETAILED AUDIT FINDING

AUDIT FINDING #1: HIGH-COST FUNDING USED FOR MAINTENANCE OF COVERED EQUIPMENT

CONDITION

TelAlaska currently has Covered List Company equipment (see Attachment A) which was purchased from 2009 to 2018 in use in their network. The purchase of the Covered List Company equipment was before the effective date of the FCC Rules and therefore is not a violation of the rules. However, TelAlaska was not able to affirmatively demonstrate that USF funds were not used to maintain, replace, or otherwise support, the covered equipment, as required per 47 C.F.R. § 54.9.⁷ Specific expenses incurred on covered equipment include changes to one of the company site's configurations, troubleshooting switch anomalies, radio frequency troubleshooting and/or interference, and 24x7 site monitoring. This was determined by reviewing maintenance expenses incurred in respect of Covered List Company Equipment identified.

CAUSE

TelAlaska does not keep accounting records in the level of detail needed to identify and isolate maintenance expenses associated with Covered List Company equipment. Further, the accounting records also do not specify expenditures supported by Universal Service Fund disbursements.

EFFECT

Moss Adams was not able to confirm the total amount of maintenance expense associated with the Covered List Company equipment due to a lack of detailed accounting records supporting maintenance charges by equipment type. As a result, the amount of maintenance expense incurred was estimated based on pro-ratio to be \$5,514 for the audit period. In determining the estimated recovery amount, Moss Adams reviewed TelAlaska's correspondence with equipment vendors during the audit period and allocated TelAlaska's plant-specific labor and expenses to the proportional value of the Covered List Company equipment versus the overall equipment value on the company's accounting records.

RECOMMENDATION

TelAlaska is participating in the FCC's "Rip and Replace" program where companies that have self-reported use of Covered List Company equipment are supported through the replacement of equipment manufactured by Covered List Companies with network equipment that is manufactured by entities that are not Covered List Companies. Thus, we recommend that TeleAlaska proceed with replacing Covered Equipment in its network under the "Rip and Replace" program and that there are no additional expenditures (including an allocation of expenditures) related to maintaining, improving, modifying, or otherwise supporting this equipment using USF funds.

⁷ See 47 C.F.R. § 54.9 (2021).

We also recommend that TelAlaska implement a system where charges that are related to equipment provided or manufactured by Covered List Companies are specifically tracked and accounted for separately in TelAlaska's general ledger to be able to affirmatively demonstrate that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by covered companies.

Finally, we recommend that TelAlaska refund the High-Cost program for the \$5,514 in estimated maintenance expense as presented above.

USF Recipient Response

TelAlaska Cellular, Inc. dba Fastwyre Broadband (the Company) has covered company equipment (i.e., Huawei) in its network and this equipment has various purchase dates from 2009 to 2018. In connection with the Company's Performance Audit on Compliance covering the period from January 1, 2021 to December 31, 2021, it has instances of potential non-compliance with some applicable Federal Communications Commission's (FCC) rules, primarily the FCC's *Supply Chain Second Report and Order*. Further, the Company notes that its Universal Service Fund (USF) support during the audit period was not held in a standalone account and the funds theoretically could have been utilized to maintain covered company equipment in the Company's network.

The Company agrees to proceed with the removal, replacement, and destruction of covered equipment in its network in accordance with the FCC's Supply Chain Reimbursement Program (SCRCP). The Company affirms that USF funds will not be utilized going forward for any expenditures (including an allocation of expenditures), related to maintaining, improving, or otherwise supporting this covered equipment. USF funds will be isolated and separated from the Company's SCRCP project. The Company agrees to implement a process to ensure that SCRCP funds or expenses are separately tracked and accounted for in the Company's general ledger. A similar process will be implemented for USF funds received by the Company. Finally, the Company will support the refund of \$5,514 to the High-Cost program; however, it will need to better understand the process for issuing this refund.

AUDITOR RESPONSE

TelAlaska affirms that going forward, USF funds will not be utilized for any expenditures related to maintaining, improving, or otherwise supporting this covered equipment. The Company also acknowledges that no universal service support will be used to modify any equipment by Covered List Companies as stated in 47 C.F.R. § 54.9.

The Company's plan to implement accounting procedures to properly track SCRCP and USF disbursements to enable them to demonstrate that the use of these funds complies with the FCC rules appears reasonable.

CONCLUSION

Moss Adams' 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* and 47 C.F.R. § 54.10, relevant to the disbursements made from the High Cost Program from January 1, 2021 to December 31, 2021; identified the audit finding outlined above with the associated recommended recovery.

** This concludes the audit report. **

**ATTACHMENT A
COVERED LIST COMPANY EQUIPMENT OWNED BY TELALASKA**

Date Obtained	Make	Model	Operational	Capabilities	Number of total units	Original Cost
8/27/2009	Huawei	BTS3606C GSM/EDGE; 40W, 2TR	Yes	BTS/RRU	1	\$ 18,842.22
9/16/2009	Huawei	BTS3606C GSM/EDGE; 40W, 2TR	Yes	BTS/RRU	1	\$ 28,188.53
8/21/2009	Huawei	BTS3606C GSM/EDGE; Outdoor Duty, 40W, 4T	Yes	BTS/RRU	1	\$ 36,165.94
9/11/2009	Huawei	BTS3606C GSM/EDGE; 40W, 2TR	Yes	BTS/RRU	1	\$ 18,380.31
9/28/2009	Huawei	BTS3606C GSM/EDGE; 40W, 2TRX	Yes	BTS/RRU	1	\$ 21,928.87
9/1/2009	Huawei	BTS3606C BS Controller Card;	Yes	BTS/RRU	1	\$ 1,728.77
9/1/2009	Huawei	BTS3606C GSM/EDGE 850, 40W;	Yes	BTS/RRU	1	\$ 27,011.98
9/1/2009	Huawei	GM-DDCM(Dual Combining Modul);	Yes	BTS/RRU	1	\$ 1,555.39
11/13/2009	Huawei	BTS3006C GSM/EDGE; 40W, 4TRX	Yes	BTS/RRU	1	\$ 28,165.98
9/1/2009	Huawei	BTS3006C GSM/EDGE; 40W, 4TRX	Yes	BTS/RRU	1	\$ 29,635.36
12/16/2009	Huawei	BTS3606C GSM/EDGE; 40W, 2TRX	Yes	BTS/RRU	1	\$ 18,782.60
12/29/2009	Huawei	BTS3606C GSM/EDGE, Outdoor; Duty, 40W, 2	Yes	BTS/RRU	1	\$ 18,018.69
5/1/2010	Huawei	BTS3606C GSM/EDGE, Outdoor; 40W, 6TRX 2/	Yes	BTS/RRU	1	\$ 40,174.40
5/1/2010	Huawei	BTS3606C GSM/EDGE, Outdoor; 40W, 4TRX 4/	Yes	BTS/RRU	1	\$ 29,555.17
9/30/2010	Huawei	DBS3900 GSM (2 x 0) EDGE, DC; Spare for	Yes	BTS/RRU	1	\$ 20,026.55
5/1/2010	Huawei	DBS3900 GSM/EDGE (6 x 2 x 2);	Yes	BTS/RRU	1	\$ 49,500.00
9/15/2010	Huawei	BTS3606C GSM/EDGE, Outdoor;	Yes	BTS/RRU	1	\$ 17,114.07
9/15/2010	Huawei	DBS3900 GSM (4x 2) EDGE, DC; (2 RRU)	Yes	BTS/RRU	1	\$ 38,268.16
9/10/2010	Huawei	DBS3900 GSM (2x2) EDGE, DC;	Yes	BTS/RRU	1	\$ 32,114.20
1/13/2011	Huawei	DBS3900 GSM (6 x 0 x 0) EDGE; BTS	Yes	BTS/RRU	1	\$ 4,811.74
9/12/2011	Huawei	BTS DBS3900 GSM (2 x 0) EDGE;	Yes	BTS/RRU	1	\$ 22,889.64
9/1/2011	Huawei	BTS DBS3900 GSM (2 x 0) EDGE;	Yes	BTS/RRU	1	\$ 22,408.87
9/1/2011	Huawei	BTS DBS3900 GSM (2 x 0) EDGE;	Yes	BTS/RRU	1	\$ 22,469.48
9/1/2012	Huawei	DBS3900 GSM (2 x 2) EDGE, DC;	Yes	BTS/RRU	1	\$ 18,026.29
9/1/2012	Huawei	DBS3900 GSM (2 x 2) EDGE, DC;	Yes	BTS/RRU	1	\$ 20,387.25
10/1/2012	Huawei	DBS3900 GSM (2 x 2) EDGE, DC;	Yes	BTS/RRU	1	\$ 21,219.55
9/1/2012	Huawei	DBS3900 GSM (2 x 2) EDGE, DC;	Yes	BTS/RRU	1	\$ 21,289.49
9/1/2012	Huawei	DBS3900 GSM (2 x 2) EDGE, DC;	Yes	BTS/RRU	1	\$ 16,770.19
8/31/2012	Huawei	DBS3900 GSM 2/0/0;	Yes	BTS/RRU	1	\$ 20,781.32
11/1/2012	Huawei	3900 UMTS Cellular Node; (see quote BP00	Yes	BTS/RRU	1	\$ 108,348.63
11/15/2013	Huawei	Lemko UMTS RRU for WCDMA 850;	Yes	BTS/RRU	1	\$ 28,392.97
5/1/2014	Huawei	Huawei 3006 Radio System;	Yes	BTS/RRU	1	\$ 20,000.00
12/1/2015	Huawei	3G NodeB BBU;	Yes	BTS/RRU	1	\$ 28,212.01
12/1/2015	Huawei	3G RRU;	Yes	BTS/RRU	1	\$ 11,745.24
10/15/2015	Huawei	Huawei-UMTS RRU;	Yes	BTS/RRU	1	\$ 38,323.75
10/15/2015	Huawei	Huawei-BBU;	Yes	BTS/RRU	1	\$ 30,684.50
10/15/2015	Huawei	Huawei-Lemco 3G Lic;	Yes	BTS/RRU	1	\$ 20,450.59
10/15/2015	Huawei	Huawei-GSM BBU;	Yes	BTS/RRU	1	\$ 11,225.14
10/15/2015	Huawei	Huawei-GSM RRU;	Yes	BTS/RRU	1	\$ 14,839.74
11/30/2015	Huawei	Huawei-GSM BTS BBU;	Yes	BTS/RRU	1	\$ 26,079.83
1/27/2017	Huawei	Upgrade NodeB - additional 1;	Yes	BTS/RRU	1	\$ 22,171.92
4/19/2018	Huawei	BBU3900; Firmware Version between 12-1	Yes	BTS/RRU	1	\$ 7,348.56
4/19/2018	Huawei	RRU3908 MRRU; B05-0850.Z.080.2T2R.X/XC.S	Yes	BTS/RRU	1	\$ 4,396.57