Universal Service
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Audit Reports Briefing Book

Monday, April 29, 2024

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Universal Service Administrative Company Offices

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

Washington, D.C. 20005

Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: January 2024.

Entity Name	**Number of Findings**	**Significant Findings**	**Amount of Support**	**Monetary Effect**	**USAC Management Recovery Action**	**Entity Disagreement**
NewPhone Wireless, LLC **Attachment A**	1	• No significant findings.	$4,967,370	$3,589	$3,589	Partial
Total	**1**		**$4,967,370**	**$3,589**	**$3,589**	

Attachment A

LI2021LR010

NewPhone Wireless, LLC

Limited Scope Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2021LR010

CONTENTS

DP George & Company

EXECUTIVE SUMMARY

January 9, 2024

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

Dear Ms. Delmar:

DP George & Company, LLC (DPG) audited the compliance of NewPhone Wireless, LLC (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during calendar year 2019 (the audit period), using select Federal Communications Commission (FCC) rules and regulations related to the Lifeline Program, including those set forth in C.F.R. Title 47, Part 54 (collectively, FCC Rules). Compliance with the FCC Rules is the responsibility of the Holding Company's management. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the FCC Rules based on our limited scope audit.

DPG conducted the audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our audit disclosed one detailed audit findings (Finding) and one other matter (Other Matter) discussed in the Detailed Audit Findings Section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Holding Company and USAC management's attention.

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

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Radha Sekar, USAC Chief Executive Officer
Tim O'Brien, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect and Recommended Recovery	Extrapolated Value ($)
Finding #1: 47 C.F.R. § 54.407(c)(2) (2018) – Improper Non-Usage Process: Usage Tracking. The tracking process used by the Holding Company did not properly de-enroll customers for non-usage.	$3,589	$3,589
Other Matter #1: 47 C.F.R. § 54.406(b) (2020) – Enrollment Representative Commissions. Enrollment representatives currently receive commissions for customer enrollment.	None	None
Total	**$3,589**	**$3,589**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery of the Lifeline Program support amount noted in the chart above. USAC Management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE, AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Holding Company complied with the FCC Rules (Rules).

SCOPE

The Holding Company claimed 99,617 subscribers and $4,967,370 in support for data months January 2019 through December 2019, the period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
279045	LA	Non-Tribal Lifeline	99,617	$4,967,370
Total			**99,617**	**$4,967,370**

Notes:
The amount of support listed above reflects disbursements as of the commencement of the audit.

BACKGROUND

The Holding Company operates as a competitive eligible telecommunications carrier (ETC) in all the states identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. Lifeline Claim System

DPG obtained and examined the Holding Company's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Holding Company's data files. DPG used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Holding Company's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process

DPG obtained an understanding of the Holding Company's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Holding Company complied with Program Rules. DPG also obtained and examined certification and/or recertification documentation or National Verifier results for 373 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation or National Verifier results for 143 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 373 subscribers.

E. Form 555

DPG obtained and examined the Holding Company's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported to the Holding Company's data files.

F. Non-Usage Process

DPG obtained an understanding of the Holding Company's non-usage process relating to the Lifeline Program to determine whether the Holding Company complied with the FCC Rules. DPG also examined documentation for 373 subscribers to determine whether the Holding Company properly validated continued use of the Lifeline-supported service. The Scope of this audit did not include an assessment of the Beneficiary's systems that provision, process, and monitor subscribers' usage activities.

G. Minimum Service Standard

DPG obtained an understanding of the minimum services offered by the Holding Company. DPG examined the Holding Company's evidence of the level of service provided for 373 subscribers to determine whether the Holding Company provided eligible services that met the minimum service standards and complied with the FCC Rules.

H. Reseller-based Telecommunication Providers

DPG obtained an understanding of the Holding Company's leased phone lines relating to the Lifeline Program to determine whether the Holding Company complied with the FCC Rules. DPG also examined documentation to determine whether the Holding Company properly claimed Lifeline Program subscribers that used the leased phone lines.

I. Enrollment Representative Accountability

DPG obtained an understanding of the Holding Company's enrollment representative process relating to the Lifeline Program and whether enrollment representatives were compensated on a commission basis.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.407(c)(2) (2018) – Improper Non-Usage Process: Usage Tracking

CONDITION

DPG selected a statistically valid sample of 286 subscribers and a judgmental sample of 87 subscribers and requested usage activity reports to determine if the Holding Company properly validated use of the Lifeline-supported service prior to the periods claimed. DPG determined that for 71 subscribers, no valid usage was completed prior to the subscriber being claimed in LCS.[1] Of the 71 subscribers, 65 subscribers did not have valid usage for a 45-day period prior to claim and should have been subject to de-enrollment, and five subscribers did not have valid usage for a 30-day period, placing them in the cure period and making them ineligible for claim.[2] DPG also identified one subscriber for whom no valid usage was reflected in the initial claim month to indicate that the subscriber activated the phone.[3]

CAUSE

The Holding Company did not adequately track subscriber usage such that subscribers who failed to meet program usage requirements were removed from monthly LCS claims.

EFFECT

SAC Number	Support Type	Monetary Effect and Recommended Recovery
279045	Non-Tribal Lifeline	$3,589
	Total:	**$3,589**

DPG calculated the 2019 monetary effect by first determining the number of instances (months) in 2019 the Holding Company claimed the 71 subscribers. DPG identified a total of 388 such instances. DPG multiplied the instances by the support amount requested in the 2019 LCS submissions and rounded to the nearest whole dollar.

Support Type	Instances	Rate	Monetary Effect
Non-Tribal Lifeline	388	$9.25	$3,589
		Total:	**$3,589**

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount recommended in the Effect section above.

DPG also recommends that the Holding Company implement policies and procedures to ensure that it tracks the appropriate activities identified in the FCC Rules and de-enrolls subscribers who fail to perform one of the allowable activities within the required timeframe. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

[1] *See* 47 C.F.R. §§ 54.405(e)(3) (2018); 54.407(c)(1), (2) (2018).

[2] *See* 47 C.F.R. § 54.407(c)(2) (2018).

[3] *See* 47 C.F.R. § 54.407(c)(1) (2018).

HOLDING COMPANY RESPONSE

The audit covers Lifeline service provided, and claims made during Calendar Year 2019. At that time, the Company contracted with VCare to review the Company's CDRs and other records to determine which Lifeline customers had qualifying usage during the prior 30 days, as well as within the prior 45 days for de-enrollment purposes. The Company had instructed VCare, and understood that VCare used the Commission's definition of qualifying usage. The audit, however, did not commence until June 21, 2021. The preliminary audit report that identified the accounts for which the auditor believed there was insufficient documentation of usage was not received by NewPhone until March 23, 2023. During the period between the end of 2019 and the preliminary findings in March 2023, the Company transitioned its operations and billing support from VCare to its own platform. That transition took place between June 13, 2022 and July 15, 2022. As a result of the transition and the end of its contract with VCare, the Company was not able to obtain duplicates of all its pre-cutover records from VCare, and not all records came through the transition intact. This limited NewPhone's ability fully to respond to the findings, although NewPhone was able to determine that there was evidence of usage for some of the users listed in the preliminary report. In addition, during the same period, T-Mobile was shutting down its Sprint legacy 3G and LTE networks, which T-Mobile completed in June 2022. Given the volume of CDRs, it is infeasible to retain complete copies. Due to the shutdown of the legacy Sprint networks, which were the networks that NewPhone used, the Company was unable to obtain copies of the original CDR records after it received the preliminary findings in March 2023. For this reason, the Company was not able to reproduce complete records for the sample selected during the audit period.

It is important to note that, with the transition to its own operations and billing platform, the Company has direct control over these systems, and not only has policies and procedures in place to track usage and de-enroll subscribers with non-usage in accordance with FCC rules, but also to retain the necessary documentation.

DPG RESPONSE

The FCC Rules at 47 C.F.R. § 54.407(a) indicate that carriers must maintain records to document compliance for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. According to the FCC Rules, the Holding Company was required to maintain subscriber usage records until the end of calendar year 2022 at which point calendar year 2019 was no longer represented in the three full preceding years. On August 11, 2021, DPG presented the initial usage documentation request to the Holding Company for the subscribers identified in the finding. On January 18, 2022, DPG presented a follow-up request to obtain additional or missing usage data for subscribers whose initial usage data was not sufficient. Both requests were presented during the period when access to the calendar year 2019 records was still required. For this reason, we maintain our position that the Holding Company did not adequately track subscriber usage.

Other Matter #1: 47 C.F.R. § 54.406(b) (2020) – Enrollment Representative Commissions

CONDITION

DPG determined that during calendar year 2019, the Holding Company used enrollment representatives to enroll new customers and provided compensation to those agents based on the number of consumers enrolled. After the period of our audit, and effective February 25, 2020, the FCC developed rules prohibiting enrollment agents from receiving commissions based on the number of consumers who applied for or enrolled in Lifeline.[4]

CAUSE

The Holding Company's enrollment process during the audit period was not in compliance with the FCC's impending rule changes that prevented enrollment representatives from receiving commissions.

EFFECT

There is no monetary effect resulting from this matter. Although the matter is outside the scope of the audit period, we nonetheless call attention to the Holding Company's existing process to make the Company aware that its existing practice did not comply with impending changes to the FCC's rules regarding enrollment representative commissions.

RECOMMENDATION

DPG recommends that the Holding Company review its current enrollment process to ensure that it has ceased the practice of providing compensation based on the number of consumers enrolled by enrollment representatives.

HOLDING COMPANY RESPONSE

> As the observation notes, the agent compensation rule was not in effect during the audit period. The Company ceased the practice of providing compensation based on the number of consumers enrolled by enrollment representatives on or before the effective date of the change in rules prohibiting such compensation to agents.

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[4] *See* 47 C.F.R. § 54.406(b) (2020) and *Bridging the Digital Divide for Low-Income Consumers; Lifeline and Link Up Reform and Modernization; Telecommunications Carriers Eligible for Universal Service Support*, Fifth Report and Order, 34 FCC Rcd 10886, 10917-10918, para. 76 (2019) (*Lifeline Fifth Report and Order*).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.407(c)(2) (2018)	"After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 30 days, or who have cured their non-usage as provided for in [47 C.F.R.] § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish 'usage' of the Lifeline service: (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service; or (v) Sending a text message."
#1	47 C.F.R. § 54.405(e)(3) (2018)	"*De-enrollment for non-usage*. Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 30 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 15 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 15-day notice period will result in service termination for non-usage under this paragraph…"
#1	47 C.F.R. § 54.407(c)(1) (2018)	"(c) An eligible telecommunications carrier offering a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers: (1) Shall not receive universal service support for a subscriber to such Lifeline service until the subscriber activates the service by whatever means specified by the carrier, such as completing an outbound call..."

Other Matter	Criteria	Description
#1	47 C.F.R. § 54.406(b) (2020); *see also* Bridging the Digital Divide for Low-Income Consumers, 84 Fed. Reg. 71308 (Dec. 27, 2019) (to be codified at 47 C.F.R. § 54.406(b)).	**(b)** ***"Prohibition of commissions for enrollment representatives***. An eligible telecommunications carrier shall not offer or provide to enrollment representatives or their direct supervisors any commission compensation that is based on the number of consumers who apply for or are enrolled in the Lifeline program with that eligible telecommunications carrier."

This concludes the report.

<u>Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: March 2024</u>

Entity Name	**Number of Findings**	**Significant Findings**	**Amount of Support**	**Monetary Effect**	**USAC Management Recovery Action**	**Entity Disagreement**
Telecom Service Bureau, Inc. **Attachment B**	2	• No significant findings.	$12,232,474	$72,041	$72,041	Partial
Total	**2**		**$12,232,474**	**$72,041**	**$72,041**	

Attachment B

LI2021LR009

DP George & Company

Telecom Service Bureau, Inc.

Limited Scope Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules

USAC Audit No. LI2021LR009

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DP George & Company

EXECUTIVE SUMMARY

March 6, 2024

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

Dear Ms. Delmar:

DP George & Company, LLC (DPG) audited the compliance of Telecom Service Bureau, Inc. (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during calendar year 2019 (the audit period), using select Federal Communications Commission (FCC) rules and regulations related to the Lifeline Program, including those set forth in C.F.R. Title 47, Part 54 (collectively, Program Rules). Compliance with the Program Rules is the responsibility of the Holding Company's management. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the Program Rules based on our limited scope audit.

DPG conducted the audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for DPG's findings and conclusions based on the audit objectives.

Based on the test work performed, our audit disclosed two detailed audit findings (Findings) and one other matter (Other Matter) discussed in the Detailed Audit Findings Section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Holding Company and USAC management's attention.

Certain information may have been omitted from this report concerning communications with Universal Service Administrative Company (USAC) management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Holding Company, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Radha Sekar, USAC Chief Executive Officer
Timothy O'Brien, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect and Recommended Recovery
Finding #1: 47 C.F.R. § 54.201(b) (2018) – Subscribers Outside of Service Area. The Holding Company claimed subscribers on its LCS submission who reside outside the service area designated by the state commission.	$70,874
Finding #2: 47 C.F.R. § 54.407(c)(2) (2018) – Improper Non-Usage Process: Usage Tracking. The tracking process used by the Holding Company did not properly remove ineligible customers from monthly support claims.	$1,167
Other Matter #1: 47 C.F.R. § 54.406(b) (2020) – Enrollment Representative Commissions. Enrollment representatives currently receive commissions for customer enrollment.	None
Total	**$72,041**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery of the Lifeline Program support amount noted in the chart above. USAC Management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Holding Company complied with the FCC Rules (Rules).

SCOPE

The Holding Company claimed 63,070 subscribers and $12,232,474 in support for data months January 2019 through December 2019, the period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
269032	KY	Non-Tribal Lifeline	121	$8,246
409017	AR	Non-Tribal Lifeline	10	$562
429021	MO	Non-Tribal Lifeline	111	$4,576
439047	OK	Non-Tribal Lifeline	1,597	$84,353
439047	OK	Tribal Lifeline	61,231	$12,134,737
Total			**63,070**	**$12,232,474**

Notes:
The amount of support listed above reflects disbursements as of the commencement of the audit.

BACKGROUND

The Holding Company operates as a competitive eligible telecommunications carrier (ETC) in all the states identified in the Scope table above.

PROCEDURES

DPG performed the following procedures:

A. Lifeline Claim System

DPG obtained and examined the Holding Company's LCS submission for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Holding Company's data files. DPG used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Holding Company's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process

DPG obtained an understanding of the Holding Company's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Holding Company complied with Program Rules. DPG also obtained and examined certification and/or recertification documentation or National Verifier results for 584 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation or National Verifier results for 144 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts
DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 584 subscribers.

E. Form 555
DPG obtained and examined the Holding Company's FCC Form 555 (Form 555) for accuracy by comparing the amounts reported to the Holding Company's data files.

F. Non-Usage Process
DPG obtained an understanding of the Holding Company's non-usage process relating to the Lifeline Program to determine whether the Holding Company complied with the FCC Rules. DPG also examined documentation for 584 subscribers to determine whether the Holding Company properly validated continued use of the Lifeline-supported service. The Scope of this audit did not include an assessment of the Holding Company's systems that provision, process, and monitor subscribers' usage activities.

G. Minimum Service Standard
DPG obtained an understanding of the minimum services offered by the Holding Company. DPG examined the Holding Company's evidence of the level of service provided for 584 subscribers to determine whether the Holding Company provided eligible services that met the minimum service standards and complied with the FCC Rules.

H. Reseller-based Telecommunication Providers
DPG obtained an understanding of the Holding Company's leased phone lines relating to the Lifeline Program to determine whether the Holding Company complied with the FCC Rules. DPG also examined documentation to determine whether the Holding Company properly claimed Lifeline Program subscribers that used the leased phone lines.

I. Enrollment Representative Accountability
DPG obtained an understanding of the Holding Company's enrollment representative process relating to the Lifeline Program and whether enrollment representatives were compensated on a commission basis.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.201(b) (2018) – Subscribers Outside of Service Area

CONDITION

DPG obtained and examined the Holding Company's LCS submission used to support the number of Lifeline claims and mapped the location of each subscriber's address to determine whether the Holding Company provided services to subscribers who resided in the areas where it was designated as an ETC.[1] DPG determined that for three of the four SACs where support was claimed, the Holding Company claimed subscribers whose address fell outside of the designated service area for their respective SAC. DPG identified a total of 166 such subscribers who were located at 156 addresses outside their designated service area.

The Oklahoma Corporation Commission, Public Utility Division (PUD) designated the service area for SAC 439047 based on the exchange boundaries for the following Incumbent Local Exchange Carriers (ILECs) listed in the Holding Company's ETC Designation Order:[2] Southwestern Bell Telephone Company d/b/a AT&T Oklahoma ("AT&T Oklahoma") and Valor Telecommunications of Texas, LP d/b/a Windstream Communications Southwest ("Windstream"). DPG identified 133 subscribers located at 124 addresses that fell outside the designated service area for this SAC.

The Missouri Public Service Commission (MOPSC) designated the service area for SAC 429021 based on the exchange boundaries for the following Incumbent Local Exchange Carriers (ILECs) listed in the Holding Company's ETC Designation Order:[3] Southwestern Bell Telephone, LP. d/b/a AT&T Missouri. DPG identified 31 subscribers located at 30 addresses that fell outside the designated service area for this SAC.

The Arkansas Public Service Commission (ARPSC) designated the service area for SAC 409017 based on the exchange boundaries for the following Incumbent Local Exchange Carriers (ILECs) listed in the Holding Company's ETC Designation Order:[4] Southwestern Bell Telephone, L.P. d/b/a AT&T (AT&T Arkansas). DPG identified two subscribers located at two addresses that fell outside the designated service area for this SAC.

CAUSE

The Holding Company did not have an adequate process in place to ensure it claimed support for eligible subscribers who resided within its designated service area.

EFFECT

[1] *See* 47 C.F.R. § 54.201(b) (2018).

[2] *See* IN RE: APPLICATION OF EASY TELEPHONE SERVICES COMPANY D/B/A EASY WIRELESS FOR DESIGNATION AS AN ELIGIBLE TELECOMMUNICATIONS CARRIER ON A WIRELESS BASIS (LOW INCOME ONLY), Cause No. PUD 201100004, Order No. 591122 (Oklahoma Corporation Commission, Hearing Date: August 18, 2011, Issue Date: November 17, 2011).

[3] *See* In the Matter of the Application of Easy Telephone Service Company d/b/a Easy Wireless for Designation as an Eligible Telecommunications Carrier on a Wireless Basis (Low Income Only), File No. TA-2011-0164 (State of Missouri Public Service Commission, Issue Date: November 22, 2011, Effective Date: December 6, 2011).

[4] IN THE MATTER OF THE APPLICATION OF EASY TELECPHONE SERVICE COMPANY D/B/A EASY WIRELESS FOR CERTIFICATION AS AN ELIGIBLE TELECOMMUNICATIONS CARRIER (LOW INCOME ONLY), Docket No. 10-083, Order No. 3 (Arkansas Public Service Commission, Issue Date: March 11, 2011).

SAC Number	Support Type	Monetary Effect and Recommended Recovery
409017	Non-Tribal Lifeline	$190
429021	Non-Tribal Lifeline	$1,663
439047	Non-Tribal Lifeline	$333
439047	Tribal Lifeline	$68,688
	Total:	**$70,874**

DPG calculated the monetary effect by first determining the number of instances (months) the Holding Company claimed the 166 subscribers. DPG determined the number of instances as the lesser of the number of months between the subscriber's Lifeline start date and the last month claimed for 2019 or the number of months between the date the subscriber moved to the ineligible address and the last month claimed for 2019. DPG identified a total of 2,248 such instances. DPG multiplied the instances by the support amount requested in the 2019 LCS submissions and rounded to the nearest whole dollar.

Support Type	Instances	Rate	Monetary Effect
Tribal Lifeline	1,997	$34.25	$68,397
Tribal Lifeline	9	$32.25	$290
Non-Tribal Lifeline	216	$9.25	$1,998
Non-Tribal Lifeline	26	$7.25	$189
		Total:	**$70,874**

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above.

DPG recommends that the Holding Company implement policies and procedures to ensure that it adheres to the FCC Rules and only seeks universal support for eligible subscribers within its ETC designated service area in accordance with the FCC Rules. In addition, the Holding Company may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

HOLDING COMPANY RESPONSE

For enrollments in Oklahoma, Easy Wireless had a process in place that required Company representatives to check mapping software to ensure applicant addresses were within the Company's service territory. In these 133 instances, the maps were not properly checked. During the audit period, Easy Wireless claimed an average of over 31,000 subscribers in Oklahoma each month, which is several hundred thousand in the audit period. Therefore, these 133 are *de minimis*. Easy Wireless is implementing the same mapping check process for Arkansas and Missouri.

Finding #2: 47 C.F.R. § 54.407(c)(2) (2018) – Improper Non-Usage Process: Usage Tracking

CONDITION

DPG selected a statistically valid sample of 533 subscribers and a judgmental sample of 51 subscribers and requested usage activity reports to determine if the Holding Company properly validated continued use of the Lifeline-supported service. DPG determined that for 45 of the subscribers, there was no valid usage listed for the subscriber in the 30 days prior to the support claim.[5] Subscribers within the cure period are not eligible to be claimed for support.[6]

CAUSE

The Holding Company's system did not adequately track and identify subscribers beyond the 30-day non-usage window for removal from the LCS claims process.

EFFECT

SAC Number	Support Type	Monetary Effect and Recommended Recovery
269032	Non-Tribal Lifeline	$9
439047	Non-Tribal Lifeline	$130
439047	Tribal Lifeline	$1,028
	Total:	**$1,167**

DPG calculated the 2019 monetary effect by first determining the number of instances (data months) in 2019 the Holding Company claimed the 45 subscribers. DPG identified a total of 45 such instances. DPG multiplied the instances by the support amount requested in the 2019 LCS submissions and rounded to the nearest whole dollar.

Support Type	Instances	Rate	Monetary Effect
Tribal Lifeline	30	$34.25	$1,028
Non-Tribal Lifeline	15	$9.25	$139
		Total:	**$1,167**

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount recommended in the Effect section above.

DPG also recommends that the Holding Company implement policies and procedures to ensure that it tracks the appropriate activities identified in the FCC Rules and de-enrolls subscribers who fail to perform one of the allowable activities within the required timeframe. In addition, the Holding Company may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

HOLDING COMPANY RESPONSE

For the two subscribers that did not show usage during a 45-day period, the usage rule did not apply to those subscribers because they make monthly payments for their service. Payment information was provided on 4/27/23. With respect to claims for the 44 subscribers with no usage for 30 days prior to the claim, the claims made for these subscribers were consistent with USAC guidance in place at the time. In its November 2019 Lifeline Order (FCC 19-111), the FCC adopted an order in which it departed from its prior policy regarding claims for subscribers in the cure period and Easy Wireless changed its claims practices to adhere to the new guidance

[5] *See* 47 C.F.R. § 54.407(c)(2) (2018).

[6] *See id*.

(which replaced other no less reasonable FCC-directed, USAC guidance which supported claims for subscribers served with discounted service during the cure period). Nothing in the updated USAC guidance suggested that it was to have retroactive effect.

DPG RESPONSE

DPG verified that the two subscribers identified within the 45-day non-usage period were on a monthly payment plan and removed these subscribers with respect to the 45-day non-usage period. When reviewing the plans for the two subscribers, DPG identified that one of the two subscribers converted to a free plan prior to the last month claimed and was in the 30-day cure period in their final month claimed. We added this exception to the 44 subscribers identified with no usage for 30 days prior to claim.

With respect to subscribers with 30 days of non-usage prior to claim, DPG added an additional criteria reference to *Bridging the Digital Divide for Low-Income Consumers*, WC Docket No. 11-42, Fifth Report and Order, 34 FCC Rcd. 10886, 10937, para. 120 (2019) (*2019 Lifeline Order*) within the Criteria section of the report. The additional reference makes it clear that the language within the FCC's rules and orders take precedence over guidance provided by USAC via its website. The reference also makes clear that the rules did not intend for subscribers to be claimed within their cure period. For these reasons, DPG's position with respect to claiming subscribers with 30 days of non-usage remains unchanged.

Other Matter #1: 47 C.F.R. § 54.406(b) (2020) – Enrollment Representative Commissions

CONDITION

DPG determined that during calendar year 2019, the Holding Company used enrollment representatives to enroll new customers and provided compensation to those agents based on the number of consumers enrolled. After the period of our audit, and effective February 25, 2020, the FCC developed rules prohibiting enrollment agents from receiving commissions based on the number of consumers who applied for or enrolled in Lifeline.[7]

CAUSE

The Holding Company's enrollment process during the audit period was not in compliance with the FCC's impending rule changes that prevented enrollment representatives from receiving commissions.

EFFECT

There is no monetary effect resulting from this matter. Although the matter is outside the scope of the audit period, we nonetheless call attention to the Holding Company's existing process to make it aware that its existing practice did not comply with impending changes to the FCC's rules regarding enrollment representative commissions.

RECOMMENDATION

DPG recommends that the Holding Company review its current enrollment process to ensure that it has ceased the practice of providing compensation based on the number of consumers enrolled by enrollment representatives.

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[7] *See* 47 C.F.R. § 54.406(b) (2020); *see also Bridging the Digital Divide for Low-Income Consumers; Lifeline and Link Up Reform and Modernization; Telecommunications Carriers Eligible for Universal Service Support*, Fifth Report and Order, 34 FCC Rcd 10886, 10917-10918, para. 76 (2019) (*Lifeline Fifth Report and Order*).

HOLDING COMPANY RESPONSE

Easy Wireless changed its compensation for enrollment representatives prior to the effective date of the rule change referenced (54.406(b)) and complied with the new rule.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.201(b) (2018)	"A state commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (d) of this section as an eligible telecommunications carrier for a service area designated by the state commission."
#1	IN RE: APPLICATION OF EASY TELEPHONE SERVICES COMPANY D/B/A EASY WIRELESS FOR DESIGNATION AS AN ELIGIBLE TELECOMMUNICATIONS CARRIER ON A WIRELESS BASIS (LOW INCOME ONLY), Cause No. PUD 201100004, Order No. 591122 (Oklahoma Corporation Commission, Hearing Date: August 18, 2011, Issue Date: November 17, 2011) (ETC Designation Order)	"IT IS THEREFORE THE ORDER OF THE OKLAHOMA CORPORATION COMMISSION that the Application filed herein by Easy Telephone Services Company d/b/a Easy Wireless for designation as a wireless Eligible Telecommunications Carrier in the service territory of AT&T Oklahoma and Windstream, non-rural incumbent local exchange carriers, is approved, consistent with the findings herein."
#1	In the Matter of the Application of Easy Telephone Service Company d/b/a Easy Wireless for Designation as an Eligible Telecommunications Carrier on a Wireless Basis (Low Income Only), File No. TA-2011-0164 (State of Missouri Public Service Commission, Issue Date: November 22, 2011, Effective Date: December 6, 2011) (ETC Designation Order)	"THE COMMISSION ORDERS THAT: Easy Telephone Service Company, d/b/a Easy Wireless, is designated as an eligible telecommunications carrier throughout the non-rural Southwestern Bell Telephone Company, L.P., d/b/a AT&T Missouri service territories, as set forth in Exhibit A to its application, under the provisions of 47 U.S.C. §§ 214 and 254, solely to receive low-income federal universal service fund support for Lifeline and LinkUp."
#1	IN THE MATTER OF THE APPLICATION OF	"It is, therefore, ordered that the Application of Easy Telephone Service Company for Designation as an Eligible Telecommunications Carrier on a

Finding	Criteria	Description
	EASY TELECPHONE SERVICE COMPANY D/B/A EASY WIRELESS FOR CERTIFICATION AS AN ELIGIBLE TELECOMMUNICATIONS CARRIER (LOW INCOME ONLY), Docket No. 10-083, Order No. 3 (Arkansas Public Service Commission, Issue Date: March 11, 2011) (ETC Designation Order)	Wireless Basis is granted, and Easy Telephone Service Company is hereby authorized as an ETC to provide Lifeline and Link-Up services via wireless operations throughout the non-rural service area of AT&T Arkansas, and to participate in the low-income mechanisms of the Universal Service Fund, to include both Lifeline and Link-Up."
#2	47 C.F.R. § 54.407(c)(2) (2018)	"After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 30 days, or who have cured their non-usage as provided for in [47 C.F.R.] § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish 'usage' of the Lifeline service: (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service; or (v) Sending a text message."
#2	*Bridging the Digital Divide for Low-Income Consumers*, WC Docket No. 11-42, Fifth Report and Order, 34 FCC Rcd. 10886, 10937, para. 120 (2019) (2019 Lifeline Order)	"We are not persuaded by NaLA's argument that we should grant the petition because it relied on informal staff guidance and USAC's website. Commission precedent is clear that carriers must rely on the Commission's rules and orders even in the face of conflicting informal advice or opinion from USAC or Commission staff. NaLA and others must rely on the plain language of the non-usage rules, as codified by the Commission, which state that ETCs will not be eligible to be reimbursed for those subscribers who are in a 15-day non-usage cure period regardless of whether the subscriber's 15- day cure period includes the snapshot date. Additionally, we note that a group of ETCs with at least some overlap with the current NaLA Petitioners acknowledged that the Commission's rules require ETCs to keep Lifeline subscribers enrolled in the program during the cure period without requesting reimbursement for that service.

Other Matter	Criteria	Description
#1	47 C.F.R. § 54.406(b) (2020)	***“Prohibition of commissions for enrollment representatives***. An eligible telecommunications carrier shall not offer or provide to enrollment representatives or their direct supervisors any commission compensation that is based on the number of consumers who apply for or are enrolled in the Lifeline program with that eligible telecommunications carrier”.
#1	*Bridging the Digital Divide for Low-Income Consumers*, WC Docket No. 11-42, Fifth Report and Order, 34 FCC Rcd. 10886, 10937, para. 76 (2019) (2019 Lifeline Order)	Based on the record before us and to limit a potential source for fraud or abuse in the program, we prohibit ETCs from offering or providing commissions to enrollment representatives and their direct supervisors based on the number of consumers who apply for or are enrolled in the Lifeline program with that eligible telecommunications carrier. This restriction applies to employees, agents, officers, or contractors working on behalf of the ETC who enroll Lifeline applicants, review eligibility documents or recertification forms, including sales and field agents, and any direct supervisors of those individuals, whether employed by the ETC or employed by a third-party contractor of the ETC. For purposes of this rule, an ETC’s payment to a third-party entity that in turn provides commissions to an enrollment representative is subject to this prohibition. This restriction is not intended to prevent ETCs from using customer service representatives to assist consumers in the Lifeline application and recertification processes. We add section 54.406(b) of the Commission’s rules to prohibit ETCs from utilizing commission structures for those enrollment representatives involved in the eligibility determination, enrollment process, or recertification process. These changes shall be effective 60 days after publication of this Fifth Report and Order in the Federal Register.
#1	*Bridging the Digital Divide for Low-Income Consumers*, 74 Fed. Reg. 71308 (December 27, 2019)	7. Effective February 25, 2020, add § 54.406 to read as follows: § 54.406 (b) Activities of representatives of eligible telecommunications carriers. (b) PROHIBITION OF COMMISSIONS FOR ENROLLMENT REPRESENTATIVES. An eligible telecommunications carrier shall not offer or provide to enrollment representatives or their direct supervisors any commission compensation that is based on the number of consumers who apply for or are enrolled in the Lifeline program with that eligible telecommunications carrier.

This concludes the report.

Summary of High Cost Support Mechanism Beneficiary Audit Report Released: February 2024

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Twin Lakes Telephone Cooperative **Attachment A**	1	• **Improper Allocation and Inclusion of Nonregulated Costs: Assets:** The Beneficiary did not accurately allocate assets and remove nonregulated assets from its HCP filings.	$16,321,720	$336,340	$336,340	Y
Total	**1**		**$16,321,720**	**$336,340**	**$336,340**	

Attachment A

HC2022LR026

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

LIMITED REVIEW PERFORMANCE AUDIT

TWIN LAKES TELEPHONE COOPERATIVE

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND HIGH COST SUPPORT MECHANISM RULES

USAC AUDIT NO. HC2022LR026

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Executive Summary

May 15, 2023

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

Dear Ms. Delmar:

Sikich CPA LLC (formerly known as Cotton & Company Assurance and Advisory, LLC) (referred to as "we" or "Sikich") was engaged to conduct a limited review performance audit on the compliance of Twin Lakes Telephone Cooperative (Beneficiary), study area code **290579**, for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. Sikich conducted the audit field work from April 14, 2022, to May 15, 2023.

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

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

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

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

Audit Results and Recovery Action

Our performance audit procedures identified one detailed audit finding, which is summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding No. 1, 47 C.F.R. § 64.901(b)(4) – Improper Allocation and Inclusion of Nonregulated Costs: Assets The Beneficiary did not accurately allocate assets and remove nonregulated assets from its HCP filings.	$103,338	$233,002	-	$336,340
Total Net Monetary Effect	**$103,338**	**$233,002**	**-**	**$336,340**

USAC Management Response

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 290579, for the HCP support in the amount noted in the chart below. USAC's HCP management will review the recommendation internally and make a determination accordingly.

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.

Finding	CAF BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (If Any) From Auditor Recommended Recovery
Finding #1	$103,338	$233,002	-	$336,340	N/A
Total	**$103,338**	**$233,002**	**-**	**$336,340**	**N/A**

Background and Program Overview

Background
Twin Lakes Telephone Cooperative Corporation, Twin Lakes Communications, Inc. (TLC), is a cost-based eligible telecommunications carrier (ETC) that provides services to more than 27,000 subscribers in Tennessee. The Beneficiary owns 100 percent of its subsidiaries, Twin Lakes Communications and OnWav, Inc. (OnWav). The Beneficiary also owns 11.9 percent of Iris Networks. The Beneficiary provides local telephone service, broadband, Competitive Local Exchange Carrier (CLEC) services, and video entertainment services. Additionally, Twin Lakes Communications provides long-distance telephone, video, and security services. OnWav provides local and long-distance Voice over Internet Protocol (VOIP), wireless internet, and directory advertising services.

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

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

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

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

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

Objectives, Scope, and Procedures

Objective
The purpose of our audit was to determine whether the Beneficiary complied with FCC Rules for the 2020 disbursement period.

Scope
The chart below summarizes the HCP support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$10,779,120
High Cost Loop (HCL)	2018	2020	$4,497,070
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$1,045,530
		Total	**$16,321,720**

Procedures
We performed the following procedures:

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

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

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

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

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

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

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

Detailed Audit Finding

<u>Finding No. 1, 47 C.F.R. § 64.901(b)(4) – Improper Allocation and Inclusion of Nonregulated Costs: Assets</u>

Condition

Sikich obtained and examined the Beneficiary's Cable and Wire Facilities (CWF) route allocation, outside plant study, and Twin Lakes' Spare Fiber Memorandum,[1] as well as Twin Lakes's responses,[2] to determine whether the Beneficiary had assigned the allocation of the asset investments to the proper category and accurately reported the allocation for Beneficiary HCP purposes. Based on examination of the Beneficiary's CWF route allocation, Sikich determined that the Beneficiary did not allocate the CWF spare fibers in accordance with FCC Rules.[3]

A review of the supporting documentation for the nonregulated adjustment determined that the allocation of fiber was inaccurate because the Beneficiary directly allocated spare fibers to CWF Category 1, as the Beneficiary intended to use the dark fiber in Fiber to the Home projects to meet FCC broadband obligations and future broadband needs. Because outside plant investment costs should be based upon the relative regulated and nonregulated usage of the investment, the Beneficiary should have allocated the spare fibers based on the usage of the investment, instead of directly assigning the fibers to CWF Category 1.

Sikich recalculated the nonregulated adjustment by allocating spare fibers to each category of lit fiber based on the ratio of each category to the total lit fibers and recalculated the route allocation. We have summarized the re-calculation in the tables below:

Table 1: Recalculation of Nonregulated Cable and Wire Facilities

Account	Beneficiary's Plant Cost Study Adjustment (A)	Recalculated (B)	Variance (A-B)
Nonregulated investment (Acct 2410)	$794,465	$2,710,015	$(1,915,550)
Nonregulated for Accumulated Depreciation (Acct 3100-2410)	$513,187	$1,670,918	$(1,157,731)
Nonregulated CWF Depreciation Expense (Acct 6561-2410)	$39,615	$132,417	$(92,802)
Nonregulated CWF Expenses (Acct 6410)	$25,451	$70,303	$(44,852)
Total	**$1,372,718**	**$4,583,653**	**$(3,210,935)**

[1] Per Twin Lakes' spare fiber memorandum received on April 29, 2023.
[2] Per Twin Lakes' responses to the Summary of Exceptions on June 1, 2023.
[3] 47 C.F.R. § 64.901(b)(4)

Table 2: Impact to Cable and Wire Facilities Categorization			
Acct 2410 By Category	Part 36 Cost Study as Reported (A)	Sikich Audited Balance (B)	Understatement/ (Overstatement) (B-A)
Cat 1–Exchange Line CWF	$168,121,044	$165,356,910	$(2,764,134)
Cat 2.1–Exchange Trunk CWF-EAS	$46,803	$151,361	$104,558
Cat 2.2-Data Only Loop	$4,036,868	$3,924,501	$(112,367)
Cat 2.4 – Exchange Trunk CWF – Wideband	$3,981,859	$4,625,314	$643,455
Cat 3 – Inter-Exchange CWF	$97,652	$310,589	$212,937
Total	**$176,284,226**	**$174,368,675**	**$(1,915,551)**

Because the Beneficiary improperly allocated spare fibers and included nonregulated amounts in its High Cost filing, Sikich concludes that the Beneficiary did not report accurate CWF balances. The Beneficiary must separate the regulated costs from nonregulated costs reported for HCP purposes.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly allocate spare fibers and exclude nonregulated amounts from the amounts reported for HCP purposes. In addition, the Beneficiary misinterpreted the rules regarding CWF spare fibers.

Effect

Sikich calculated the monetary effect by (1) subtracting the costs improperly allocated to CWF asset Category 1 in the amount of $(2,764,134) and to Category 2.2 in the amount of $(112,367); and (2) adding the costs to the proper asset Category 2.1, Category 2.4, Category 3 in the amounts of $104,558, $643,455, and $212,937, respectively. The monetary impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$103,338
HCL	$233,002
CAF ICC	-
Total	**$336,340**

Recommendation

We recommend that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must maintain asset categorization schedules that include documenting assets by the proper category to demonstrate compliance with FCC Rules. The

Beneficiary must properly allocate spare fibers and include nonregulated amounts in its High Cost filing. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will update and maintain documentation for asset categorization schedules submitted for HCP purposes, in accordance with Rule 47 C.F.R. § 64.901(b)(4).

The issue with the Beneficiary's CWF route allocation likely existed prior to the current audit period; Sikich therefore recommends that USAC management collect and review documentation for the Beneficiary's prior-year High Cost submissions to recalculate support.

The Beneficiary may learn more about documentation and reporting requirements on the USAC website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common%20audit-findings-high-cost-program/.

Beneficiary Response

The Beneficiary agrees that spare fiber cost, as determined in the cable and wire facilities analysis, was assigned to Category 1 with a pro-rata portion subsequently allocated to Category 2.2 for data -only loop and Category 2.4 for wideband loop. This assignment was done via an analysis of fiber cable routes.

The Beneficiary's spare fiber is intended for current and future broadband (including Fiber to the Home) customers so that the company can meet broadband buildout obligations and can reasonably expect to be able to serve the rapidly growing broadband needs of its customers, present and future. The Beneficiary continues to convert customers to broadband service, which requires additional fiber capacity while at the same time, capacity used for other services is decreasing. The Beneficiary has previously provided Sikich a document that describes this plan. All Twin Lakes fiber planning and construction is done in accordance with RUS guidelines, a copy of which is also provided.

The Beneficiary has also provided factual examples in their responses to Sikich that illustrate the use of previously existing spare fiber that has been converted to in-use fiber used to provide subscriber broadband services. This document has also been previously provided.

Sikich has focused on their assertion that the assignment of fiber to leased (nonregulated) should be conducted so that any spare fiber costs be assigned on the basis of in-use fiber. An example of this can be found below:

A	B	C	D	E	F	G	H	I	J
Company:	Twin Lakes Telephone Cooperative Corporation								
Study Date:	12/31/2018								
Route No.	RT. 20 - GAINESBORO TO JCHS						*100% Concentrator*		
Section No.	**Cable Size**	**Footage**	**Type of Const.**	**Cost per Unit**	**Total Cost**		**Notes**		
1	20 Fiber	10,618	2421	$3.9273	$41,700	G.F4000			
2	12 Fiber	8,749	2421	$1.1001	$9,625	G.F4010			
3	8 Fiber	600	2423	$1.3192	$792	G.F4020			
Total		**19,967**			**$52,117**				
Circuit Miles		**3.782**							
			Dedicated Fiber Allocation						
Section No.	**Toll**	**Joint**	**DSL**	**H/R**	**IRIS/Sch**	**Other**	**Total**		
1	0	0	0	0	2	18	20		
2	0	0	0	0	2	10	12		
3	0	0	0	0	2	6	8		
Section # :	**1**				**Dedicated Fiber Allocation**				
Type	**2421**		**Toll**	**Joint**	**DSL**	**H/R**	**IRIS/Sch**	**Other**	**Total**
1.) Total Cost									$41,700
2.) Total # of Fibers			0	0	0	0	2	18	20
3.) Cost per Fiber (Ln 1 / Ln 2)									$2,085.02
4.) CPF Allocated			$0	$0	$0	$0	$4,170	$37,530	$41,700
5. Totals			**$0**	**$0**	**$0**	**$0**	**$4,170**	**$37,530**	**$41,700**

In the example shown above, the fiber shown in the route in question is not interexchange cable facilities, but rather, it represents the connection between a central office and a subscriber location (JCHS). The costs for this type of network plant would be assigned 100% subscriber loop (Cable and Wire Category 1). However, JSI is required to analyze this plant in order to determine the actual cost associated with the 2 fibers that are leased to a third party and are not used or intended to be used by Twin Lakes to connect their end user customers. Sikich appears to assert that the entirety of the costs of this route ($52,117) should be assigned to the leased category, as at the time of the cable study, these 2 fibers are the only two currently in service to a customer. The Beneficiary does not believe that this is a reasonable approach, as the customer is only leasing 2 fibers, (representing a cost of $5,972 for all three segments) while the remaining fibers are reserved for use by Twin Lakes. Please note that Part 64 of the FCC Rules discuss a 3Year forecast of regulated vs nonregulated use to be employed in the allocation of fiber facilities. As no plans existed (and none have occurred since 2018) to lease additional fibers in this route, this analysis fully complies with the FCC Rules.

Twin Lakes has also provided cost data that indicates that the most significant portion of the cost of buried fiber cable is found in the actual cost of installation, as opposed to the material cost of the actual fiber. The result of this fact is that it is both prudent and economical for Twin Lakes to install additional fibers for future use at the time of the initial installation, as opposed to incrementally constructing new fiber capacity on an ongoing basis in a particular location.

In the example, the lease customer is only receiving the use of these two fibers (and no others), and the amount that they have been charged represents only costs associated with those two leased fibers, along with a full distribution of overhead costs for a fully distributed cost to be recovered via the lease of $5,972. The Beneficiary believes that only the prorated share (using actual fibers leased) of the cost of construction should be assigned to the leased category, prior to the remainder of the fully distributed costs being determined.

The Beneficiary does not agree that spare fiber should be allocated based on fibers in use since usage is in some instances capped on a per-fiber basis or is decreasing. FCC Rule 36.153(a)(1) states: (i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows: (A) By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. (Emphasis by Beneficiary)

As shown above, the FCC does not require allocations be conducted solely on fibers in use and does discuss the concept of fibers reserved by the Beneficiary. The concept of reserving fibers for a particular category does not appear to be in conflict with Part 64.901(a)(2), which includes: "Costs shall be directly assigned to either regulated or nonregulated activities whenever possible".

In addition, NECA advises its member companies in Cost Guideline 4.23 that FCC Rules acknowledge that certain CWF investments can be reserved and categorized according to assignment records.

This NECA Guideline can be found attached as well (Attachment 1). This paper generally recaps the FCC's rules and procedures used to assign Cable and Wire facilities to appropriate Part 64 and Part 36 Assignments. The conclusion of this paper read as shown below:

In developing this audit finding, Sikich appears to be assuming that ALL spare fiber be assigned based on in use fiber, where both the FCC Rules themselves and the NECA Guidelines discuss "general" and typical assignments, subject to change based on documentation and intended use parameters. The Beneficiary has provided both general information describing corporate strategy as well as specific examples of actual use for subscriber connections as intended in their narrative. This information was provided to Sikich in the course of the audit, but at no time did Sikich discuss, review, or otherwise review the applicability of this information in the development of this finding.

Based on the information provided above, the Beneficiary respectfully disagrees with this finding.

Sikich's Response
As stated in the Condition, pursuant to Rule 47 C.F.R. § 64.901(b)(4): "The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed."

Sikich acknowledges that it was both prudent and economical for Twin Lakes to install additional fibers for future use at the time of the initial installation, as opposed to incrementally constructing new fiber capacity on an ongoing basis in a particular location. However, per FCC

Rules, outside plant investment costs shall be based upon the relative regulated and nonregulated usage of the investment. As such, the spare CWF should have been allocated based on usage within each section analysis of the cable and wire study as part of the Part 64 nonregulated allocation prior to the Part 36 separations the Beneficiary is referring to in its quotation of 47 C.F.R. § 36.153(a)(1)(i)(A).

Further, the Beneficiary is claiming that because its 64.901(b)(4) allocation should be based on forecasted use and because it is forecasting no nonregulated use for the spare fibers, that its allocation methodology is appropriate. However, because Sikich noted that leased fiber represents nonregulated usage of investment within the Beneficiary's cable and wire study, Sikich determined that the Beneficiary should have allocated a portion of its spare fiber as nonregulated. Specifically, the Beneficiary should have compared the percentage of leased fiber (nonregulated) and the percentage of regulated fiber and should have allocated the spare fibers consistent with the percentages identified.

Accordingly, our position regarding this finding has not changed. However, after we reviewed the Beneficiary's responses to this report, we added footnote #2 to indicate that we had reviewed all of the Beneficiary's responses when drafting our audit findings.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 64.901 (2018)	*(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.* *(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.* *(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service.* *(2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible.* *(3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy:* *(i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves.* *(ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.*

Finding	Criteria	Description
		(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities. *(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.*

Sikich CPA LLC

(formerly known as Cotton & Company Assurance and Advisory, LLC)

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: March 2024

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Eagle Telephone System, Inc. **Attachment B**	3	• No significant findings.	$852,736	($1,858)	$0	N
Union Telephone Company **Attachment C**	2	• No significant findings.	$1,346,988	($81,379)	$0	N
Total	**5**		**$2,199,724**	**($83,237)**	**$0**	

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

Attachment B

HC2022LR007

Eagle Telephone System, Inc.

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

USAC Audit No. HC2022LR007

TABLE OF CONTENTS

EXECUTIVE SUMMARY

January 26, 2024

Michael L. Lattin
Vice President
Eagle Telephone Systems, Inc.
349 First Street
Richland, OR 97870

Dear Mr. Lattin

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Eagle Telephone Systems, Inc. (Beneficiary), study area code 532369 disbursements for the year ended December 31, 2020, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, Federal Communication Commission (FCC) Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

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

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

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

Sincerely,

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

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect				Recommended Recovery[1]
	HCL	CAF BLS	CAF ICC	Total	Total
Finding #1: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service. The Beneficiary did not exclude expenses transactions deemed not necessary for the provision, maintenance, and upgrading of facilities and services for which the support is intended.	**$9,972**	**$207**	**$0**	**$10,179**	**$10,179**
Finding #2: 47 C.F.R. § 51.917(d) - Inaccurate Revenues: Intrastate Terminating Switched Access Services. The Beneficiary did not report accurate transitional intrastate access service revenues in its CAF ICC filing.	**$0**	**$0**	**($12,037)**	**($12,037)**	**$0**
Finding #3: 47 C.F.R. § 32.2000(e)(2018); 47 C.F.R. § 54.320 (b)– Improper Continuing Property Records. The Beneficiary did not maintain a complete detailed CPR for the Cable and Wire Facility (CWF) and Central Office Equipment (COE) assets.	**$0**	**$0**	**$0**	**$0**	**$0**
Totals	**$9,972**	**$207**	**($12,037)**	**($1,858)**	**$10,179**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 532369, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends

[1] The recovery amount noted in the table is not reflective of prior period or cap adjustments. The actual recovery amount for this final audit report will not exceed the proposed recovery amount.

that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	CAF BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$9,972	$207	$0	$10,179	N/A
Finding #2	$0	$0	($12,037)	($12,037)	N/A
Finding #3	$0	$0	$0	$0	N/A
Mechanism Total	**$9,972**	**$207**	**($12,037)**	**($1,858)**	**N/A**

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

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$365,700
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2017-2019	2020	$206,910
High Cost Loop (HCL)	2018	2020	$280,126
Total			**$852,736**

BACKGROUND

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

[2] *Id.*

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

AAD recalculated the support that the Beneficiary received for each High Cost component and determined that there were no more than nominal differences between the amounts received and those recorded in the High Cost system.[3]

B. High Cost Program Process

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

C. Billing Records

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

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

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[3] The 2011 base period amounts that were used to calculate the federal high-cost support (FHCS) disbursement for the audit period were not tested and were presumed to be accurate.

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service

CONDITION

AAD obtained and examined documentation to determine whether (1) the Beneficiary recorded its cost study balances to the proper general ledger accounts and (2) the Beneficiary used its High Cost support for the provision, maintenance, or upgrading of facilities and services for which the support was intended.[4] AAD used computer-assisted auditing techniques and identified 22 general ledger transactions totaling $92,532, from various accounts, for the twelve months ended December 31, 2018, that the Beneficiary did not properly exclude. These expenses were related to dues for a trade association, food, and a retainer for stand-by off-hours emergency maintenance and fire protection unrelated to business operations,[5] and were not necessary for the provision, maintenance, and upgrading of facilities,[6] as summarized in the table below.

Account[7]	Transaction Description	# of Transactions	Value of Transactions with Exceptions for the Twelve Months Ended Dec. 31, 2018
General and Administrative Expense (6720)	Dues, Food	3	$7,876
Other Prepayments (1280)	Dues	1	$4,656
Cable and Wire Facilities (2410)	Off-hours emergency maintenance and fire-protection unrelated to business operations	1	$20,000

[4] 47 C.F.R. § 54.7(a) (2018). See also *In the Matter of Sandwich Isles Communications, Inc.*, WC Docket 10-90, Order on Reconsideration, FCC 18-172, para. 7 (2019); Public Notice, *All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose*, FCC 15-133, para.7 (Oct. 19, 2015); *In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 14 and para. 15 (Mar. 23, 2018).

[5] The Beneficiary provided AAD with rate sheets and the on-call list of points of contact, but only a written description as to how the amount of $5,000 per month was determined as part of its response to audit inquiry 34, dated April 26, 2023, which states "services are for off-hours emergency maintenance and fire-protection and are considered community welfare purposed expenses." In the absence of contracts and other supporting documentation, AAD determined the recurring monthly charge was not substantiated and was not a qualifying maintenance expense.

[6] *See* Public Notice, *All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose*, FCC 15-133, para. 1 and para.7 (Oct. 19, 2015), and *In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 14 and para. 15 (Mar. 23, 2018).

[7] *See* 47 C.F.R. §§ 32.1280; 32.2410; 32.6230; 32.6410; 32.6720 (2018).

Cable and Wire Facilities Expense (6410)	Off-hours emergency maintenance and fire-protection unrelated to business operations	10	$40,000
Central Office Transmission Expense (6230)	Off-hours emergency maintenance and fire-protection unrelated to business operations	7	$20,000
Total		**22**	**$95,532**

FCC rules require carriers that receive federal universal service support to use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.[8] Because the Beneficiary's reported balances included ineligible transactions, AAD concludes that the Beneficiary's High Cost program support was not used for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude transactions that were not used for the provision, maintenance, and upgrading of facilities and services for which the High Cost support was intended[9].

EFFECT

AAD calculated the monetary effect of this finding by subtracting the value of the 22 ineligible transactions from the balances reported by the Beneficiary, along with any corresponding accumulated depreciation and depreciation expense, in the respective accounts in its High Cost program filings. AAD summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$9,972
CAF BLS	$207
Total	**$10,179**

RECOMMENDATION

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

The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary removes costs

8 *See* 47 C.F.R. § 54.7(a)(2018)

9 *See* Beneficiary response to audit inquiries, AIR #34, received April 24, 2023, and AIR #34.1 received on May 12, 2023.

that are not for the provision, maintenance, and upgrading of facilities and services for which the support is intended to report accurate data for High Cost program purposes and maintain documentation to demonstrate compliance with FCC Rules. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Carrier was made aware of this finding by auditor. We have discussed this with our accountants and employees and will not let this occur again. We agree this should have been removed for USF purposes.

Carrier is working on obtaining more training and help to identify these costs and attempt to capture them correctly if they are not regulated costs. We are using M.A. and well as our accounting firm in Baker City to be more diligent when recording these costs.

FINDING #2: 47 C.F.R. § 51.917(d) - Inaccurate Revenues: Intrastate Terminating Switched Access Services

CONDITION

AAD obtained and examined documentation, including the Beneficiary's billing reports, general ledger, and CAF ICC High Cost Program filings, to determine whether the Beneficiary accurately reported transitional intrastate access service revenues for High Cost Program reporting purposes per the FCC Rules.[10] AAD determined that the Beneficiary did not report accurate transitional intrastate access service revenues because the Beneficiary did not separate terminating and originating revenues in their general ledger and had reported both intrastate and interstate revenue (including terminating and originating revenue) together for CAF ICC Program years 2017 and 2018.[11] Thus, transitional intrastate access service revenue was overstated by $13,825 for the CAF ICC Program year 2017, and $10,249 for the CAF ICC Program year 2018.

As the Beneficiary's supporting documentation (e.g., billing reports and general ledger) did not agree with the revenue amounts reported, AAD concludes that the Beneficiary did not report accurate revenues for transitional intrastate access service for CAF ICC High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate transitional intrastate access service revenues for High Cost program purposes. The Beneficiary acknowledged that the revenues were not appropriately recorded.[12]

EFFECT

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[10] *See* 47 C.F.R. § 51.917(d)
[11] *See* Beneficiary response to audit inquiries, received Sept. 26, 2022.
[12] *Id*.

AAD calculated the monetary effect of this finding by subtracting $13,825 and $10,249 from the Beneficiary's transitional intrastate access service revenue reported for CAF ICC Program Year July 2017 – June 2018, and Program Year July 2018 – June 2019, respectively, in order to recalculate an updated true-up value. AAD summarized the impact of this finding relative to the disbursements made from the High Cost Program for the twelve-month period ended December 31, 2020, in the table below.

Support Type	Monetary Effect[13]
CAF ICC	($12,037)

RECOMMENDATION

The Beneficiary must ensure that it has an adequate system in place to report data for CAF ICC purposes. The Beneficiary must implement and perform a thorough and timely review process to reconcile revenues before being reported for High Cost purposes.

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

BENEFICIARY RESPONSE

> This error was a result of not properly understanding our monthly reports in our system (CTI) when this error was brought to our attention, we met with CTI rep to discuss. He has since instructed us on proper interpretation of report.
>
> CTI sent a rep. to our office last year after we realized we had been doing this report incorrectly and instructed us in proper way to run our terminating mou reports and how to correctly read them. He continues to check with us on this issue as well to help insure [sic] we are obtaining the proper information to report.

FINDING #3: 47 C.F.R. § 32.2000(e)(2018); 47 C.F.R. § 54.320 (b)– Improper Continuing Property Records

CONDITION

AAD obtained and examined the continuing property records (CPR) to determine whether the Beneficiary properly maintained its property records. FCC rules require all eligible telecommunications carriers to retain all records required to demonstrate to auditors that the support received was consistent with the universal

[13] The monetary effect listed only represents disbursements during calendar year 2020. AAD notes additional amounts may have been overstated in prior and subsequent periods due to the same error.

service high-cost program rules for at least ten years from the receipt of funding.[14] The Beneficiary did not maintain a complete detailed CPR for the Cable and Wire Facility (CWF) and Central Office Equipment (COE) assets (e.g., asset's description, location, date of placement, the essential details of construction, and the original cost of the property record units). Specifically, the Beneficiary did not have any details prior to January 2016.

Description	Amount
2018 Account 2410 Cost Study Balance	$5,823,378
Less Supported Amount from CPR	$2,013,449
Potentially Unsupported Amount for Acct 2410	$3,809,929
Less Acct 2410 Accumulated Depreciation	$2,900,288
Potential Net Unsupported Total Acct 2410	$909,641

The variance of $3.8M and corresponding depreciation primarily relates to older assets placed in service prior to 2016. AAD was able to gain comfort that the assets were in service by reviewing the Beneficiary's provided maps and staking sheets (i.e., hand-drawn maps detailing asset locations) against Google Earth photos that outlined the service area.

Additionally, AAD obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High-Cost program purposes. 47 C.F.R. § 32.2000(g)(2)(iii) requires that depreciation is performed using the average of each month's beginning and ending balances for each asset account. AAD determined that depreciation was calculated in accordance with the FCC Rules; however, all asset additions for 2018 were recorded as placed in service during December 2018. AAD could not verify the place in service dates due to a lack of documentation. As the depreciation calculation is based on monthly average balances, delaying recording the assets as in-service will affect depreciation calculations.

Because the Beneficiary did not retain sufficient and accurate details to account for their CWF and COE investments within the CPR, and accurately report in-service dates for the depreciation calculation, AAD concludes that the Beneficiary did not maintain its CPR to provide for (1) the verification of property records units by physical examination, (2) accurate accounting for retirements, and (3) data for use in connection with depreciation studies.[15] The Beneficiary must maintain detailed CPRs that include the description, location, date of placement, and the original cost of the property record units.[16]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to

[14] *See* 47 C.F.R. § 54.320 (b)(2018).

[15] *See* 47 C.F.R. § 32.2000(e)(7)(i) (2018).

[16] AAD was still able to select 21 CWF asset samples and perform detailed testing. No COE assets were deemed material and thus not tested.

include the proper level of detail. The Beneficiary stated that the files provided were all that exist (2016-2019). The Beneficiary is in the process of working backward with years of information they currently have to complete historical years, but it will not be able to go back to the very oldest plant items.[17]

EFFECT

There is no monetary effect for this finding as AAD was able to gain comfort that assets were in service per the maps and staking sheets. However, detailed property records are essential to retiring assets when removed from service or transferring assets among locations. While this finding has no monetary impact, AAD notes that the failure to maintain property records that can be physically verified with sufficient detail to accurately account for retirements increases the probability of errors in future High Cost filings.

RECOMMENDATION

The Beneficiary must develop and implement policies and procedures to bring its property records into compliance, and to maintain such records with the level of detail required by FCC Rules. AAD recommends that the Beneficiary consider conducting a complete inventory of the COE and CWF plant in service and evaluate the actual original cost of the property, or estimates if the original cost is unknown.

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

BENEFICIARY RESPONSE

Carrier has hired additional part time employee to strictly work on CPR's. This is this employees only work task. We believe this will enable us to keep our CPRS current year to year.

[17] See response to audit inquiries, received April 19, 2022.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.7(a) (2018)	A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#1	Public Notice, *All Universal Service High-Cost Support Recipients are Reminded that Support Must be Used for Its Intended Purpose*, FCC 15-133, para. 1 and para.7 (Oct. 19, 2015).	The Commission reminds all eligible telecommunications carriers (ETCs) that receive support from the Universal Service Fund's high-cost mechanisms (whether legacy high-cost program support or Connect America Fund support) of their obligations to use such support only for its intended purposes of maintaining and extending communications service to rural, high-cost areas of the nation. Expenditure of legacy high-cost or Connect America support for any other purpose is misuse and may subject the recipient to recovery of funding, suspension of funding, enforcement action by the Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act… The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: Personal travel; Entertainment; Alcohol; Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; Political contributions; Charitable donations; Scholarships; Penalties or fines for statutory or regulatory violations; Penalties or fees for any late payments on debt, loans or other payments; Membership fees and dues in clubs and organizations; Sponsorships of conferences or community events; Gifts to employees; and Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages.
#1	*In the Matter of Connect America Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing a Unified Intercarrier Compensation Regime*, WC Docket No. 10-90, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 14 and para. 15 (Mar. 23, 2018)	The High-Cost Oct. 19, 2015 Public Notice contained a non-exhaustive list of expenditures that cannot be recovered through the high-cost program because they are "not necessary to the provision of supported services."…Several months later, the Commission released the Rate-of-Return Reform Further Notice initiating, among other things, a comprehensive review of the extent to which certain investments and expenses incurred by rate-of-return LECs may be included in the revenue requirement for ratemaking and the extent to which carriers may receive support for such expenses from the high-cost universal service support program. The Commission observed that it had not comprehensively reviewed the continued reasonableness of its rules regarding permissible investments and expenses since the Telecommunications Act of 1996 was adopted, and market and regulatory conditions had changed substantially since that time. The expansion of the broadband market has placed steady demands on the high-cost program and, coupled with a shrinking contribution base, the Commission found that it was more important than ever that these finite funds be used solely for their intended purposes. In the Rate-of-Return Reform Further Notice, the

Finding	Criteria	Description
		Commission identified several additional categories of goods or services that were not previously explicitly prohibited from recovery through high-cost support that it proposed prohibiting going forward, including: artwork and other objects which possess aesthetic value; corporate aircraft, watercraft, and other motor vehicles designed for off-road use, except insofar as necessary to access inhabited portions of the study area not reachable by motor vehicles travelling on roads; any vehicles for personal use; tangible property not logically related or necessary to the offering of voice or broadband services; childcare; cafeterias and dining facilities; and, housing allowances or other forms of mortgage or rent assistance for employees. The Commission expressed concern that such expenses were not necessary to the provision of supported services and sought comment on whether there was any reason that these expense categories should not be completely excluded from a carrier's high-cost support.
#1	47 C.F.R. § 32.1280	Prepayments This account shall include: (a) The amounts of rents paid in advance of the period in which they are chargeable to income, except amounts chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the rents are paid, this account shall be credited monthly and the appropriate account charged. (b) The balance of all taxes, other than amounts chargeable to telecommunication plant under construction and minor amounts which may be charged to the final accounts, paid in advance and which are chargeable to income within one year. As the term expires for which the taxes are paid, this account shall be credited monthly and the appropriate account charged. (c) The amount of insurance premiums paid in advance of the period in which they are chargeable to income, except premiums chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the premiums are paid, this account shall be credited monthly and the appropriate account charged. (d) The cost of preparing, printing, binding, and delivering directories and the cost of soliciting advertisements for directories, except minor amounts which may be charged directly to Account 6622, Number services. These prepaid directory expenses shall be cleared to Account 6622 by monthly charges representing that portion of the expenses applicable to each month. (e) Other prepayments not included in paragraphs (a) through (d) of this section except for minor amounts which may be charged directly to the final accounts. As the term expires for which the payments apply, this account shall be credited monthly and the appropriate account charged.
#1	47 C.F.R. § 32.2410	Cable and wire facilities. This account shall be used by companies to record the original cost of cable and wire facilities of the type and character detailed in Accounts 2411 through 2441.

Finding	Criteria	Description
#1	47 C.F.R. § 32.6230	Central office transmission expense. Companies shall use this account for expenses of the type and character detailed in Accounts 6231 and 6232.
#1	47 C.F.R. § 32.6410	Cable and wire facilities expenses. Companies shall use this account for expenses of the type and character detailed in Accounts 6411 through 6441
#1	47 C.F.R. § 32.6720	General and administrative. This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities; (4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services;

Finding	Criteria	Description
		(5) Job analysis and salary programs; (6) Labor relations activities; (7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#2	47 C.F.R. § 51.917(d)	*Eligible Recovery for Rate-of-Return Carriers*. (1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section

Finding	Criteria	Description
		(iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year. (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year. (vi) If a Rate-of-Return Carrier receives or makes reciprocal compensation payments after the period used to measure the adjustments to reflect the differences between estimated and actual net reciprocal compensation revenues, it shall treat such amounts as actual revenues or payments in the year the payment is received or made and shall reflect this as an additional adjustment for that year. (vii) If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to § 51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism. (viii) (A) If a Rate-of-Return Carrier in any tariff period underestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), and thus has too much Eligible Recovery in that tariff period, it shall refund the amount of any such True-up Revenues or True-up Revenues for Access Recovery Charge that are not offset by the Rate-of-Return Carrier's Eligible Recovery (calculated before including the true-up amounts in the Eligible Recovery calculation) in the true-up tariff period to the Administrator by August 1 following the date of the Rate-of-Return Carrier's annual access tariff filing. (B) If a Rate-of-Return Carrier in any tariff period receives too little Eligible Recovery because it overestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), which True-up Revenues and True-up Revenues for Access Recovery Charge it cannot recover in the true-up tariff period because the Rate-of-Return Carrier has a negative Eligible Recovery in the true-up tariff period (before calculating the true-up amount in the Eligible Recovery calculation), the Rate-of-Return Carrier shall treat the unrecoverable true-up amount as its Eligible Recovery for the true-up tariff period.
#3	47 C.F.R. § 32.2000(e)(2018)	Basic property records. (1) The basic property records are that portion of the total property accounting system which preserves the following

Finding	Criteria	Description
		detailed information: (i) The identity, vintage, location and original cost of units of property; (ii) Original and ongoing transactional data (plant account activity) in terms of such units; and (iii) Any other specific financial and cost accounting information not properly warranting separate disclosure as an account or subaccount but which is needed to support regulatory, cost, tax, management and other specific accounting information needs and requirements
#3	47 C.F.R. § 54.320 (b)	(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors
#3	47 C.F.R. § 32.2000 (g)(2)(iii)	Depreciation charges. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.
#3	47 C.F.R. § 32.2000 (e)(7)(i)	The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). The continuing property records shall be maintained as prescribed in § 32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives:

Finding	Criteria	Description
		(A) Provide for the verification of property record units by physical examination. (B) Provide for accurate accounting for retirements. (C) Provide data for use in connection with depreciation studies.

This concludes the report.

Attachment C

HC2023LR001

Available For Public Use

Union Telephone Company

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

USAC Audit No. HC2023LR001

TABLE OF CONTENTS

EXECUTIVE SUMMARY

January 22, 2024

Christopher Reno, Director
Union Telephone Company
850 N Hwy 414
Mountain View, WY 82939

Dear Mr. Reno:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Union Telephone Company (Beneficiary), study area code 512297 disbursements for the year ended December 31, 2021, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 51 and 54, as well as other program requirements (collectively, Federal Communication Commission (FCC) Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

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

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

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

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

Sincerely,

Jeanette Santana-Gonzalez

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

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery[1]
Finding #1: 47 C.F.R. § 51.917(D)(V)- Inaccurate Interstate Switched Access Service Revenues The beneficiary reported inaccurate Interstate Switched Access Service Revenue for program years 2018-2019 and 2019-2020.	($72,873)	$0
Finding #2: 47 C.F.R. § 51.917(D)(III)(A) - Inaccurate Transitional Intrastate Access Service The Beneficiary reported inaccurate Transitional Intrastate Access Service Revenue for program years 2018-2019 and 2019-2020.	($8,506)	$0
Total	**$(81,379)**	**$0**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 512297, 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 the correct application of its procedures to ensure compliance with FCC Rules and Orders.

	CAF ICC	USAC Recovery Action[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$($72,873)	$($72,873)	N/A
Finding #2	$($8,506)	$($8,506)	N/A
Mechanism Total	**$(81,379)**	**$(81,379)**	N/A

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

[1] The recovery amount noted in the table is not reflective of prior period or cap adjustments. The actual recovery amount for this final audit report will not exceed the proposed recovery amount.
[2] *Id.*

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018-2021	2021	$1,346,988

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Revenues

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 51.917(d)(v) - Inaccurate Interstate Switched Access Service Revenues

CONDITION

AAD obtained and examined the Beneficiary's Tariff Review Plan (TRP) and general ledger to determine whether the Beneficiary reported accurately Interstate Switched Access Service Revenues (Interstate Revenues) for High-Cost program purposes for Program Years 2018 - 2019 and 2019 - 2020. The Beneficiary's general ledger did not agree with the revenues reported by the Beneficiary. The differences are summarized below:

CAF ICC Program Years	Interstate Revenues from CAF ICC Filing Reports [A]	Interstate Revenues from General Ledger [B]	Overstatement / (Understatement) [A] – [B]
2018-2019	$605,571	$543,391	$62,180
2019-2020	$655,921	$572,340	$83,581
		Total	**$145,761**

Per the FCC Rules, the true-up revenues from an access service are equal to the projected demand minus the actual realized demand for that service times the default transition rate for that service.[3] Thus, AAD used the general ledger as the basis for the actual realized demand for the Interstate revenue. Because the Beneficiary's supporting documentation (the general ledger) did not agree to the amount that was reported, AAD concludes that the Beneficiary did not report accurate Interstate Revenue. FCC rules require that CAF ICC recipients report accurate Interstate Revenue for High Cost program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate Interstate Revenue for High-Cost purposes. The Beneficiary did not demonstrate sufficient knowledge of the FCC rules regarding the components of interstate switched access revenues and what should be reported for CAF ICC purposes. The Beneficiary stated that the internally generated billing reports calculated revenues by multiplying minutes of use or demand units by the tariff rate instead of using actual revenues billed and thus were overstated.[4]

EFFECT

The monetary effect of this finding is an underpayment of $72,873. AAD calculated the monetary effect of this finding by subtracting the overstated amount from the total Interstate Switched Access Revenue amount reported by the Beneficiary in its CAF ICC filings for the respective periods. AAD summarized the results as follows:

[3] *See* 47 CFR § 51.917(b)(6) (2018).

[4] *See* Beneficiary response to Audit Inquiry #20 received October 20, 2023.

Fund Type	Monetary Effect and Recommended Recovery
CAF ICC	($72,873)

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to report accurate data for High-Cost program purposes to demonstrate compliance with the FCC Rules. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary collects and retains documentation and establish additional controls to ensure final revenues reported in its CAF ICC filings reconcile to the general ledger. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary agrees with the finding. Going forward we will perform an additional level of review to compare revenues reported to carrier billing and to the GL balance before filing.

Finding #2: 47 C.F.R. § 51.917(d)(iii)(A) - Inaccurate Transitional Intrastate Access Service

CONDITION

AAD obtained and examined the Beneficiary's Tariff Review Plan (TRP), billing reports, and general ledger details to determine whether the Beneficiary reported accurate Transitional Intrastate Access Service Revenues (i.e., Terminating Intrastate access revenue) for High-Cost program purposes. FCC rules require recipients to accurately report Transitional Intrastate Access Service Revenues.[5] AAD determined that the Beneficiary reported inaccurate Transitional Intrastate Access Service Revenues for both CAF ICC Program Years 2018-2019 and 2019-2020.

The reported revenues within the Beneficiary's general ledger contained both originating and terminating intrastate revenue.[6] The Beneficiary provided monthly billing reports for originating and terminating intrastate revenues, which AAD reconciled to within a reasonable variance of the revised general ledger amounts.

AAD also compared the monthly billing reports for terminating revenue to the reported terminating intrastate revenues. The differences are summarized below:

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[5] *See* 47 C.F.R § 51.917(d)(iv)(2018).

[6] *See* Beneficiary response to Background Questionnaire received December 28, 2022

CAF ICC Program Year	Reported Intrastate Revenues [A]	Terminating Intrastate Revenues from CABS Billing Reports [B]	Overstatement / (Understatement) [A] – [B]
2018-2019	$300,886	$298,369	$2,517
2019-2020	$266,271	$251,761	$14,510
		Total	**$17,027**

The Beneficiary agreed that the revenues reported were incorrectly calculated and included revenues that should have been excluded. Because the Beneficiary's supporting documentation (the billing reports) did not agree with the amount that was reported, AAD concludes that the Beneficiary did not report accurate Transitional Intrastate Access Service Revenues. The Beneficiary must report accurate Transitional Intrastate Access Service Revenues for High-Cost Program purposes.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules for reporting Intrastate Revenues for High-Cost program purposes. The Beneficiary informed AAD that the minutes of use and demand units were multiplied by the tariff rate instead of using billed revenues.[7]

EFFECT

The monetary effect of this finding is an underpayment of $8,506. AAD calculated the monetary effect of this finding by subtracting the overstated amount from the total Transitional Intrastate Access Service Revenues amount reported by the Beneficiary in its CAF ICC filings. AAD summarized the results as follows:

Fund Type	Monetary Effect
CAF ICC	($8,506)

RECOMMENDATION

The Beneficiary must implement an adequate system to ensure it reports accurate data for High Cost Program purposes and maintains documentation. The Beneficiary must develop and implement policies, procedures and processes that describe how the Carrier will ensure that it reports accurate Intrastate Revenue for High Cost purposes. Also, the Beneficiary must ensure that the data reported in the general ledger and supporting billing reports agree with what is being reported for CAF ICC purposes.

BENEFICIARY RESPONSE

> The Beneficiary agrees with the finding. Going forward we will perform an additional level of review to compare revenues reported to the General Ledger and to carrier billing before filing. We will also verify that only Terminating Intrastate Access Revenues are included in the reported revenues.

[7] *Id.*

CRITERIA

Finding	Criteria	Description
#1, #2	47 C.F.R § 51.917(d)(v)	(v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year.
#1, #2	47 C.F.R § 51.917(b)(6)	(6) True-up Revenues. True-up Revenues from an access service are equal to (projected demand minus actual realized demand for that service) times the default transition rate for that service specified by §51.909. True-up Revenues from a non-access service are equal to (projected demand minus actual realized net demand for that service) times the default transition rate for that service specified by §20.11(b) of this chapter or §51.705. Realized demand is the demand for which payment has been received, or has been made, as appropriate, by the time the true-up is made."
#2	47 C.F.R § 51.917(d)(iii)(A)	(iii) Beginning July 1, 2014, a Rate-of Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in §51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012.
#2	47 C.F.R § 51.903(j)	Transitional Intrastate Access Service means terminating End Office Access Service that was subject to intrastate access rates as of December 31, 2011; terminating Tandem-Switched Transport Access Service that was subject to intrastate access rates as of December 31, 2011; and originating and terminating Dedicated Transport Access Service that was subject to intrastate access rates as of December 31, 2011.

This concludes the report.