High Cost & Low Income Committee

Audit Reports Briefing Book

Monday, July 29, 2024

Available for Public Use

Universal Service Administrative Offices

700 12th Street, NW, Suite 900

Washington, DC

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Attachment A Sandhill Telephone Cooperative, Inc.	2	• No significant findings.	$4,035,618	$23,100	$23,100	N
Attachment B The Chillicothe Telephone Company	1	• No significant findings.	$1,845,840	$99,556	$99,556	N
Attachment C Yadkin Valley Telephone Membership Corporation	1	• No significant findings.	$6,983,136	($28,179)	$0	N
Total	**4**		**$12,864,594**	**$94,477**	**$122,656**	

* 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 in a net underpayment.

Attachment A

HC2023LR004

Universal Service Administrative Co.

Available for Public Use

Sandhill Telephone Cooperative, Inc.

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

USAC Audit No. HC2023LR004

TABLE OF CONTENTS

Universal Service Administrative Co.

EXECUTIVE SUMMARY

January 25, 2024

Susan Melton, CABS Coordinator
Sandhill Telephone Cooperative, Inc.
122 Main Street
Jefferson, SC 29718

Dear Susan Melton:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Sandhill Telephone Cooperative, Inc. (Beneficiary), study area code 240546 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 32, 51, and 54, as well as other program requirements (collectively, the 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
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]
	CAF BLS	CAF ICC	Total	
Finding #1: 47 C.F.R. § 51.917(e)(1),(2); 47 C.F.R § 51.917(f)(2) (2020) – Inaccurate Access Recovery Charge Revenues. The Beneficiary did not report the maximum imputed Access Recovery Charges revenues per the FCC Rules.	$0	$31,260	$31,260	$31,260
Finding #2: 47 C.F.R. § 54.903(a)(4)(2020) – Inaccurate Subscriber Line Charge Revenue. The Beneficiary overstated its Subscriber's Line Charge revenue in its High Cost program filings.	($8,160)	$0	($8,160)	$0
Total	**($8,160)**	**$31,260**	**$23,100**	**$31,260**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 240546, for the High Cost Program support in the amount noted in the chart below.

The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with the FCC Rules and Orders.

	CAF BLS (A)	CAF ICC (B)	USAC Recovery Action (A) + (B)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$0	$31,260	$31,260	N/A
Finding #2	($8,160)	$0	($8,160)	N/A
Mechanism Total	**($8,160)**	**$31,260**	**$23,100**	**N/A**

[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 AND PROCEDURES

PURPOSE

The purpose of our audit was to determine whether the Beneficiary complied with the 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)	2019	2021	$3,788,976
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2019-2020	2021	$246,642
Total			**$4,035,618**

BACKGROUND

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in South Carolina.

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 the 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 the 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; and
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. 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.

E. Exchanges

AAD obtained and examined general exchange tariffs (if applicable) and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 51.917(e)(1),(2); 47 C.F.R § 51.917(f)(2) (2020) – Inaccurate Access Recovery Charge Revenues

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation to determine if the Beneficiary reported the accurate maximum Access Recovery Charge Revenues (ARC Revenues) for High Cost program purposes.[3] The FCC rules require Rate-of-Return Carriers to impute the maximum charges it could have assessed.[4] AAD examined the Beneficiary's line counts and multiplied them by the maximum ARC rate of $3.00 to impute the Beneficiary's ARC Revenues.[5] For the months reported from July 2018 through July 2019, the Beneficiary used an ARC rate of $2.50 rather than $3.00 to calculate the Residential ARC Annual Revenues and the Single Line Business (SLB) ARC Annual Revenues. AAD identified the variance between the imputed ARC Revenues and the Beneficiary's reported ARC Revenues below.

Summary of ARC Revenue Differences	**Program Year 2020-2021**	**Program Year 2021-2022**	**Total**
Reported ARC Revenues	$383,969	$398,040	$782,009
Imputed ARC Revenues	$441,960	$402,570	$844,530
Difference: Over/(Under) Reported	**($57,991)**	**($4,530)**	**($62,521)**

Because the imputed ARC Revenues were greater than the Beneficiary's reported ARC Revenues, AAD concludes that the Beneficiary did not report the maximum ARC charges.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct ARC Revenues along with ARC classifications for High Cost program purposes. The Beneficiary stated that it had applied the wrong ARC rate for Residential and SLB lines in Program Year 2020-2021 and incorrectly reported revenues per that lower rate.[6] The Beneficiary attributed the remaining variance to differences in line counts resulting from the billing cycle not aligning with the monthly reporting schedule.[7]

EFFECT

The monetary effect of this finding is $31,260. AAD calculated the monetary effect by adding the difference between the understated amounts to the reported revenues by the Beneficiary in its ARC Revenue accounts in its CAF ICC filing. AAD summarized the results below.

---

[3] *See* 47 C.F.R. § 51.917(f)(2) (2020).
[4] *See id.*
[5] *See* 47 C.F.R. § 51.917(e) (2020).
[6] *See* Beneficiary email response, received Oct. 26, 2023.
[7] *See* Beneficiary response to audit inquiries, received Sep. 21, 2023.

Support Type	Monetary Effect and Recommended Recovery
CAF ICC	$31,260

RECOMMENDATION

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

The Beneficiary must ensure 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 substantiates the inputs, and calculates, documents and ensures accurate reporting of the access recovery charge revenues reported for High Cost program purposes. More information about documentation and reporting requirements may be found 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 [B]eneficiary acknowledges that it unintentionally understated the ARC revenue reported to NECA. The [B]eneficiary billed its residential and single-line business customers an ARC rate of $2.50 instead of the tariff rate of $3.00 during a portion of the period under review. The [B]eneficiary had already changed the rate in the billing system during the period being reviewed.

Finding #2: 47 C.F.R. § 54.903(a)(4)(2020) – Inaccurate Subscriber Line Charge Revenue

CONDITION

AAD obtained and examined the Beneficiary's general ledger, supporting schedules, and its Form 509 to determine if the Beneficiary reported accurate Subscriber Line Charge (SLC) revenue for High Cost program purposes. The Beneficiary's net SLC revenue per its supporting documentation for the year ended December, 31, 2019 amounted to $1,015,748; however, the Beneficiary reported net SLC revenue per its Form 509 as $1,023,908. The Beneficiary stated the $8,160 variance was due to employee concession credits and monthly proration credits that were not reported to NECA.[8] Because the Beneficiary overstated its SLC revenue amount by $8,160 in its Form 509, AAD concludes that the Beneficiary did not report accurate SLC Revenue as per the FCC Rules.[9]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate SLC revenue for High Cost program purposes. The Beneficiary informed AAD that there was an error with billing, which has since been addressed with the vendor.[10]

[8] *See* Beneficiary response to audit inquiries, received Oct. 17, 2023.
[9] *See* 47 C.F.R. § 54.903(a)(4) (2020).
[10] Beneficiary response obtained during conference call held Oct. 23, 2023.

EFFECT

The monetary effect of this finding is $8,160. AAD calculated the monetary effect of this finding by subtracting the overstated revenue amount from the total SLC revenue from the Form 509 balances reported by the Beneficiary. AAD summarized the results below.

Support Type	Monetary Effect
CAF BLS	($8,160)

RECOMMENDATION

The Beneficiary must implement an adequate system to ensure it reports accurate data for High Cost program purposes. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure SLC revenue is accurate in the Form 509 prior to submission to the High Cost Program.

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

> The [B]eneficiary acknowledges that it overstated the SLC revenue reported to NECA. The Service Listing Report from the billing system used for gathering the SLC Revenue reported to NECA each month did not include the monthly prorations and the employee concession credit. The [B]eneficiary has corrected its Service Listing Report to include the appropriate charge codes. In addition, an extra step will be added to the review process to compare the SLC revenue reported to NECA to the General Ledger.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 51.917(e)(1),(2) (2020)	Access Recovery Charge. (1) A charge that is expressed in dollars and cents per line per month may be assessed upon end users that may be assessed a subscriber line charge pursuant to §69.104 of this chapter, to the extent necessary to allow the Rate-of-Return Carrier to recover some or all of its Eligible Recovery determined pursuant to paragraph (d) of this section, subject to the caps described in paragraph (e)(6) of this section. A Rate-of-Return Carrier may elect to forgo charging some or all of the Access Recovery Charge. (2) Total Access Recovery Charges calculated by multiplying the tariffed Access Recovery Charge by the projected demand for the year may not recover more than the amount of eligible recovery calculated pursuant to paragraph (d) of this section for the year beginning on July 1.
#1	47 C.F.R. § 51.917(f)(2) (2020)	Beginning July 1, 2012, a Rate-of Return Carrier may recover any eligible recovery allowed by paragraph (d) of this section that it could not have recovered through charges assessed pursuant to paragraph (e) of this section from CAF ICC Support pursuant to §54.304. For this purpose, the Rate-of-Return Carrier must impute the maximum charges it could have assessed under paragraph (e) of this section.
#2	47 C.F.R. § 54.903(a)(4) (2020)	Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories.

This concludes the report.

Attachment B

HC2023LR006

The Chillicothe Telephone Company

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

USAC Audit No. HC2023LR006

TABLE OF CONTENTS

EXECUTIVE SUMMARY

January 26, 2024

Pete Holland, CFO
The Chillicothe Telephone Company
68 East Main St.
Chillicothe, OH 45601

Dear Mr. Holland:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of The Chillicothe Telephone Company (Beneficiary), study area code 300597 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 one detailed audit finding (Finding) as discussed in the Audit Result 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 RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery[1]
Finding: 47 C.F.R § 51.917(d)(v)(2018) - Inaccurate Interstate Switched Access Service Revenues The Beneficiary reported inaccurate Interstate Switched Access Service Revenue for program years 2018-2019 and 2019-2020.	**$99,556**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 300597, for the High Cost Program 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 the Rules. USAC recommends that the Beneficiary implement internal controls to ensure 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	$99,556	$99,556	N/A
Mechanism Total	**$99,556**	**$99,556**	**N/A**

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	$1,845,840

[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.*

BACKGROUND

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

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 FINDING

Finding: 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 accurate 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	$107,451	$207,362	($99,911)
2019-2020	$81,293	$180,214	($98,921)
		Total	**($198,832)**

The Beneficiary stated that they reported only terminating interstate revenue for the CAF ICC filing. In comparison, the Beneficiary's general ledger records include originating and terminating interstate revenues.[3] However, according to the FCC Rules, for CAF ICC reporting purposes, interstate switched access revenue encompasses both originating and terminating revenues.[4] AAD confirmed that the interstate revenues reported and shown on the Beneficiary's TRP do not include all originating and terminating revenues.

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. 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.[5] Thus, AAD used the general ledger as the basis for the actual realized demand for the Interstate revenue. The Beneficiary must report accurate Interstate Revenue for High Cost program purposes.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules governing Switched Access Service Revenues (Interstate Revenues) and did not have controls in place to ensure it reports accurate Interstate Revenue for High Cost purposes. The Beneficiary stated its interpretation of FCC Order 11-161, paragraph 798 led them to exclude originating revenues.

EFFECT

The monetary effect of this finding is $99,556. AAD calculated the monetary effect of this finding by adding the understated amount to 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* Beneficiary response to Audit Inquiry #8 received September 1, 2023.
[4] *See* FCC Order 11-161, Para. 801; 47 CFR § 51.917(b)(6) (2018)
[5] *See* 47 CFR § 51.917(b)(6) (2018).

Fund Type	Monetary Effect and Recommended Recovery
CAF ICC	$99,556

RECOMMENDATION

AAD recommends that USAC management seek recovery of $99,556.

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

The Beneficiary must become familiar with the FCC Rules related to CAF ICC submission, to include all applicable revenues, especially interstate switched access revenues (originating and terminating revenues). The Beneficiary must develop and implement internal controls to ensure it has an adequate reconciliation and review of revenue data for accurate reporting for High Cost program purposes and 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 that 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 concurs with the monetary effect of the finding in the amount of $99,556 and concurs with the process the AAD used to calculate the monetary effect of the finding by adding the understated amount to the total Interstate Switched Access Revenue amount reported by the Beneficiary in its CAF ICC filings for the respective periods.
>
> The Beneficiary has adequate systems in place to collect the components of the CAF ICC filings, including tariffed rates, billed units and billed revenues. The Beneficiary also has adequate systems in place to calculate the Expected Revenues. However, controls were not in place to reconcile calculations to the Beneficiary's general ledger. The Beneficiary has added a reconciliation step to the CAF ICC true up calculations. The Beneficiary will require the General Manager of Accounting to reconcile the calculated revenue true-up data to the Beneficiary's general ledger for the appropriate revenue accounts and revenue periods. The General Manager is not responsible for calculating CAF ICC and therefore will be an appropriate person to review the filing for reasonableness and accuracy of reported revenues.

CRITERIA

47 C.F.R § 51.917(d)(v)(2018):

> (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.

47 C.F.R § 51.917(b)(6)(2018):

> (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."

Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing an Unified Intercarrier Compensation Regime; Federal-State Joint Board, Report and Order FCC 11-161, para. 801 (rel. Oct. 27, 2011)

> Thus, at the outset of the transition, all interstate switched access and reciprocal compensation rates will be capped at rates in effect as of the effective date of the rules.1495 We cap these rates as of the effective date of the rules1496 to ensure that carriers cannot make changes to rates or rate structures to their benefit in light of the reforms adopted in this Order. For price cap carriers, all intrastate rates will also be capped, and, for rate-of-return carriers, all terminating intrastate access rates will also be capped. Consistent with many proposals in the record, our transition plan provides rate-of-return carriers, whose rates typically are higher, additional time to transition as appropriate. Specifically, we conclude that a six-year transition for price cap carriers and competitive LECs that benchmark to price cap carrier rates and a nine-year transition for rate-of-return carriers and competitive LECs that benchmark to rate-of return carrier rates to transition rates to bill-and-keep strikes an appropriate balance that will moderate potential adverse effects on consumers and carriers of moving too quickly from the existing intercarrier compensation regimes.

This concludes the report.

Attachment C

HC2023LR024

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

LIMITED REVIEW PERFORMANCE AUDIT

YADKIN VALLEY TELEPHONE MEMBERSHIP CORPORATION

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

USAC AUDIT NO. HC2023LR024

Sikich CPA LLC
333 John Carlyle Street, Suite 500
Alexandria, Virginia 22314
703.836.6701, phone
www.sikich.com

CONTENTS

Executive Summary

December 8, 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[1] (referred to as "Sikich" or "we") was engaged to conduct a limited review performance audit on the compliance of Yadkin Valley Telephone Membership Corporation, dba Zirrus (Beneficiary), study area code **230511**, for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2021. We conducted the audit field work from June 26, 2023 to December 8, 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 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 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. Our 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 audit 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.

[1] Effective December 14, 2023, we amended our legal name from "Cotton & Company Assurance and Advisory, LLC" to "Sikich CPA LLC" (herein referred to as "Sikich"). Effective January 1, 2024, we acquired CLA's federal practice, including its work for the Universal Service Administrative Company.

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[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 51.917 (d)(1)(v) (2018-2020), 47 C.F.R. § 54.320 (b) (2019)– Inaccurate and Unsupported Interstate Switched Access Service and Intrastate Terminating Switched Access Service Revenue. The Beneficiary did not provide sufficient documentation to support the interstate switched access revenues and transitional intrastate switched access revenues it reported to USAC for HCP purposes.	$0	$0	($28,179)	($28,179)	$0
Total	**$0**	**$0**	**($28,179)**	**($28,179)**	**$0**

USAC Management Response

USAC management concurs with the audit results for SAC 230511, for High Cost Program support. The Beneficiary must implement the 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.

[2] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

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	$0	$0	($28,179)	($28,179)	N/A
Total	**$0**	**$0**	**($28,179)**	**($28,179)**[3]	**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's recovery action is $0.

Background and Program Overview

Background

Yadkin Valley Telephone Membership Corporation (YVTMC, dba Zirrus) is an average-schedule Eligible Telecommunications Carrier (ETC) that provides services to more than 22,808 subscribers in Yadkin County, North Carolina. The Beneficiary provides regulated local telephone service, and non-regulated services including internet, wireless telephone, managed IT services, security, connected technologies (smart home automation). The Beneficiary has a wholly owned subsidiary named Yadkin Valley Telecom that provides internet services. The Beneficiary is also affiliated with The Data Center, which is wholly owned by Yadkin Valley Telecom and provides managed.

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 average schedule 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.

[3] *Id.*

- **Rate-of-Return Incumbent Local Exchange Carrier (ILEC) Connect America Fund (CAF) Intercarrier Compensation (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 relevant FCC Rules for the 2021 disbursement period.

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2019	2021	$5,508,822
High Cost Loop (HCL)	2019	2021	$88,386
CAF Intercarrier Compensation (ICC)	2018 – 2020	2021	$1,385,928
Total			**$6,983,136**

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. 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.

D. Cost Allocation

We obtained the carrier's loop and/or access line count report(s) and the National Exchange Carrier Association (NECA) Loop Count Guide. For HCL, we agreed the number of loops per the loop report to the number of loops reported in the High Cost data according to the Part 36 data reported. For CAF BLS, we agreed the number of access lines per the access line report to the number of access lines reported in the High Cost data according to the Form 507. We agreed the number of consumer broadband-only lines to the number of consumer broadband-only loops in service reported in the High Cost data. We also obtained the monthly line count billing reports and reconciled the reports to the monthly lines counts reported in the 24-month view.

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 51.917 (d)(1)(v) (2018-2020), 47 C.F.R. § 54.320 (b) (2019)– Inaccurate and Unsupported Interstate and Intrastate Revenue

Condition

We obtained and examined the Beneficiary's Carrier Access Billing (CAB) reports, audited financial statements, general ledger and NECA CAF ICC True-Up documentation to determine whether the Beneficiary reported accurate interstate and intrastate revenue for HCP purposes. FCC Rules[4] state that if a rate-of-return carrier receives payments for interstate or intrastate

[4] See 47 C.F.R. § 51.917(d)(1)(v) (2018-2020).

services it shall treat such payments as actual revenue in the year it receives the payments and shall reflect this as an additional adjustment for that year.

We found that the total interstate and intrastate revenue the Beneficiary identified on its billing reports and general ledger did not agree to the revenue the Beneficiary reported to USAC. Further, the Beneficiary was not able to reconcile either (1) the interstate and intrastate revenue amounts reported in its billing reports to the interstate and intrastate revenue amounts recorded in its general ledger, or (2) the interstate and intrastate revenue amounts recorded in its general ledger to the interstate and intrastate revenue amounts reported in the CAB report. We have summarized the amounts the Beneficiary reported in the various reporting systems in Program Year July 2019- June 2020 below:

Interstate Revenue	Program Year 2019 –2020
Reported to USAC	$218,247
Per CAB Report	$114,341
Per General Ledger	$109,963
Overstated Interstate Revenue	**$108,284**

The Beneficiary reported $218,247 in interstate revenue to USAC; however, the Beneficiary did not maintain adequate documentation to substantiate this amount. Therefore, we relied on the Beneficiary's audited general ledger, which reported $109,963 in total interstate revenue. Because the Beneficiary's supporting documentation did not support the amount of interstate revenue the Beneficiary reported to USAC, we cannot conclude that the Beneficiary accurately reported its interstate revenue to USAC. Therefore, we determined that the Beneficiary over-reported its net interstate revenue by $108,284 (calculated as $218,247 - $109,963).

Intrastate Revenue	Program Year 2019 –2020
Reported to USAC	$41,352
Per CAB Report	$106,414
Per General Ledger	$93,278
Understated Intrastate Revenue	**($51,926)**

The Beneficiary reported $41,352 in intrastate revenue to USAC; however, the Beneficiary did not maintain adequate documentation to substantiate this amount. Therefore, we relied on the Beneficiary's audited general ledger,[5] which reported $93,278 in total intrastate revenue. Because the Beneficiary's supporting documentation did not support the amount of intrastate revenue the Beneficiary reported to USAC, we cannot conclude that the Beneficiary accurately reported its intrastate revenue to USAC. Therefore, we determined that the Beneficiary under-reported its net intrastate revenue by $51,926 (calculated as $41,352 - $93,278).

[5] We determined that the Beneficiary's general ledger was sufficiently reliable for our purposes of our audit.

Cause

The Beneficiary stated that its document retention issues and the variances we identified were largely the result of a transition period that the Beneficiary underwent due to a system conversion and personnel changes.[6]

Effect

We calculated the monetary impact to the Beneficiary's HCP filing by adjusting the CAF ICC to subtract the overstated revenue amounts of $108,284 to the Interstate Revenue and to add the understated revenue amounts of $51,926 to the Intrastate Revenue reported for the Program Year July 2019– June 2020. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$0
HCL	$0
CAF ICC	($28,179)
Total	**($28,179)**[7]

Recommendation

We recommend that the Beneficiary (1) implement a system that adequately ensures the Beneficiary reports accurate data to USAC for HCP purposes, (2) perform timely reviews to ensure the system is functioning properly, and (3) maintain sufficient data and perform reconciliations to ensure its general ledger supports the revenue amounts it reports to USAC.

Beneficiary Response

We accept the Finding. Yadkin Valley Telephone Membership Corporation has implemented additional controls around process, procedure, and record retention. The conversion to a new software provided additional tools to be able to pull data accurately and reliably from the system, and to store it in a secure and thorough manner.

---

[6] Per the Beneficiary's response to the Summary of Exceptions, received December 11, 2023.

[7] For interstate and intrastate revenue, the program year spanned from July 2019 to June 2020, which would be trued up during the 2021 – 2022 program year. Because the audit period covers the 2021 disbursement period, this issue only affects the first half of the audit period. The monetary effect is therefore -$54,142 for the unsupported interstate revenue (-$108,284/2) and $25,963 for intrastate revenue ($51,926/2). Accordingly, we determined the monetary impact for interstate and intrastate revenue is -$28,179.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 51.917 (d)(1)(v) (2018-2020)	*(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.* *(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	47 C.F.R. § 54.320 (b) (2019)	(*b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service HCP 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*

Sikich CPA LLC

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Attachment D Panhandle Telephone Cooperative, Inc.	9	• No significant findings.	$13,313,286	($950,031)	$0	Partial
Attachment E Chester Telephone Co.	1	• No significant findings.	$3,462,882	$21,459	$21,459	Y
Attachment F Doylestown Tel Co	0	• Not applicable.	$913,788	$0	$0	N/A
Attachment G Oxford County Tel	0	• Not applicable.	$2,302,439	$0	$0	N/A
Attachment H Scott Rice Tel Co.	0	• Not applicable.	$1,465,080	$0	$0	N/A
Attachment I Deposit Telephone Co.	0	• Not applicable.	$403,002	$0	$0	N/A
Attachment J Tennessee Tel. Co	0	• Not applicable.	$1,269,384	$0	$0	N/A
Total	**10**		**$23,129,861**	**($928,572)**	**$21,459**	

* 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 in a net underpayment.

Attachment D

HC2022LR021

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

LIMITED REVIEW PERFORMANCE AUDIT

PANHANDLE TELEPHONE COOPERATIVE, INC.

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

USAC AUDIT NO. HC2022LR021

SIKICH®
Sikich CPA LLC
333 John Carlyle Street, Suite 500
Alexandria, Virginia 22314
703.836.6701, phone
www.sikich.com

CONTENTS

333 John Carlyle Street, Suite 500
Alexandria, VA 22314
703.836.6701

SIKICH.COM

Executive Summary

August 30, 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[1] (referred to as "we") was engaged to conduct a limited review performance audit on the compliance of Panhandle Telephone Cooperative, Inc. (Beneficiary), study area code (SAC) 432016 for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. We conducted the audit field work from May 3, 2022, to August 30, 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 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 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. Our 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 audit disclosed nine detailed audit findings, as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a

[1] Effective December 14, 2023, we amended our legal name from "Cotton & Company Assurance and Advisory, LLC" to "Sikich CPA LLC" (herein referred to as "Sikich"). Effective January 1, 2024, we acquired CLA's federal practice, including its work for the Universal Service Administrative Company.

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 nine detailed audit findings, which are summarized below.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1, 47 C.F.R. § 32.2000(g)(2) (2018). – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary reported incorrect depreciation expense and accumulated depreciation amounts to USAC for HCP purposes.	($641,262)	($524,432)	$0	($1,165,694)	$0
Finding No. 2, 47 C.F.R. § 32.12(b)(c) (2018) – Inadequate Supporting Documents: Expenses and **47 C.F.R. § 32.2(a)(b) (2018) – Inaccurate Classification of Expense to Incorrect Part 32 Account.** The Beneficiary provided inadequate supporting documentation and did not classify expense transactions to the correct Part 32 accounts.	$206,646	$232,356	$0	$439,002	$439,002
Finding No. 3, 47 C.F.R. § 32.12 (2018), 47 C.F.R. §	$23,272	$15,910	$0	$39,182	$39,182

[2] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
32.13(a)(1)(c) (2018) – Misclassified and Inadequate Documentation: Expenses. The Beneficiary incorrectly expensed asset transactions which should have been capitalized due to a system conversion.					
Finding No. 4, 47 C.F.R. § 64.901 (2018) – Inaccurate Allocation Methodology – Cost Study Adjustments & Affiliate Transactions. The Beneficiary reported inaccurate cost study adjustments of affiliate transactions.	($203,085)	($247,554)	$0	($450,639)	$0
Finding No. 5, 47 C.F.R. § 51.917(d) (2017-2019) – Inaccurate Revenue Reporting – Transitional Interstate Access Service Revenue. The Beneficiary reported inaccurate transitional interstate access service revenue.	$0	$0	$1,638	$1,638	$1,638
Finding No. 6, 47 C.F.R. § 54.320 (b) (2018) – Lack of Documentation Resulting in Unsupported Amounts – Affiliate Transactions.	$37,737	$44,614	$0	$82,351	$82,351

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
The Beneficiary did not provide sufficient documentation to support affiliate transactions.					
Finding No. 7, 47 C.F.R. § 64.901 (b) (3) (2018) Improper Allocation Methodology – Affiliate Transactions. The Beneficiary included non-regulated balances and used improper allocation factors to assign common costs among its intercompany affiliates.	$32,010	$32,313	$0	$64,323	$64,323
Finding No. 8, 47 C.F.R. § 32.12(b)(c) (2018) – Inadequate Supporting Documentation: Assets. The Beneficiary did not provide sufficient documentation to support the value of asset transactions.	$6,766	$4,906	$0	$11,672	$11,672
Finding No. 9, 47 C.F.R. § 54.7(a) (2018), FCC 15-133, FCC 18-29 – Improper Inclusion for Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support. The Beneficiary included non-regulated	$23,568	$4,566	$0	$28,134	$28,134

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
costs in its cost study balances.					
Total Net Monetary Effect	**($514,348)**	**($437,321)**	**$1,638**	**($950,031)**	**$666,302**

USAC Management Response

USAC management concurs with the audit results for SAC 432016, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

Regarding Findings #2 and #8, USAC management requires the Beneficiary to be placed on a Corrective Action Plan (CAP) to address lack of documentation and data retention procedures. As part of the CAP, the Beneficiary must report to High Cost management, within 60 days of the date of the Notification Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

Regarding the recommendation for Finding #9, USAC's High Cost Program Management will review this internally and make a determination accordingly.

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	($641,262)	($524,432)	$0	($1,165,694)	N/A
Finding #2	$206,646	$232,356	$0	$439,002	N/A
Finding #3	23,272	$15,910	$0	$39,182	N/A
Finding #4	($203,085)	($247,544)	$0	($450,639)	N/A
Finding #5	$0	$0	$1,638	$1,638	N/A
Finding #6	$37,237	$44,614	$0	$82,351	N/A
Finding #7	$32,010	$32,313	$0	$64,323	N/A
Finding #8	$6,766	$4,906	$0	$11,672	N/A
Finding #9	$23,568	$4,566	$0	$28,134	N/A
Total	**($514,348)**	**($437,321)**	**$1,638**	**($950,031)**	**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, the USAC recovery action is $0.

Background and Program Overview

Background

Panhandle Telephone Cooperative, Inc. (PTCI) ("The Beneficiary"), is a cost-based Eligible Telecommunications Carrier (ETC) that provides service to more than 8,000 subscribers in Oklahoma and Texas. The Beneficiary provides phone service and non-regulated services, including internet, TV, Voice over Internet Protocol (VoIP) services, site/tower lease colocation, dark fiber lease, retail broadband, mobile and fixed wireless (via its subsidiary), voicemail, managed routers, and hosted phone systems. The Beneficiary is the parent company of one subsidiary, Panhandle Telecommunications Systems, Inc. (PTSI) (100 percent ownership). The subsidiary holds 38 percent non-controlling partnership interest of Commercial Mobile Radio Service, a Service Provider in Texas Rural Service Area II.

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 services 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 (CAF) Intercarrier Compensation (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	Date Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$8,374,494
High Cost Loop (HCL)	2018	2020	$3,894,426
CAF Intercarrier Compensation (ICC)	2017–2019	2020	$1,044,366
Total			**$13,313,286**

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 (CPRs) 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 Findings

<u>Finding No. 1, 47 C.F.R. § 32.2000(g)(2) (2018)– Inaccurate Depreciation Expense and Accumulated Depreciation Calculation</u>

Condition

We 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 HCP purposes. In accordance with FCC Rules,[3] the Beneficiary must record depreciation expense utilizing average monthly asset balances based on the first and last day of each month and record the associated accumulated depreciation accordingly. Based on the examination of the Beneficiary's depreciation schedule, we determined that the Beneficiary used the vintage year straight-line depreciation methodology in which assets purchased were added to the current vintage year layer (year of purchase). Additionally, the Beneficiary used the beginning asset balance at the beginning of the month to calculate the depreciation expenses.

Based on our recalculation of depreciation expense utilizing average monthly asset balances, we summarized the differences between the audited 12 months of depreciation expenses and associated accumulated depreciation and the amount reported in the Beneficiary's Part 64 Cost Study as of December 31, 2018 in the table below:

Account	As reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
Period of January 1, 2018, to December 31, 2018			
ACCT_3100_2110 Accumulated Depreciation - Land & Support Assets	$11,105,866	$11,597,477	($491,611)
DL270_3100_2230 Accumulated Depreciation – Central Office Equipment (COE) Transmission	$23,628,666	$25,074,875	($1,446,209)
DL280_3100_2410 Accumulated Depreciation – Cable and Wire Facility (CWF)	$72,914,556	$73,259,212	($344,656)
DL510_6560_2110 Depreciation Expense - Land & Support Assets	$692,817	$1,184,428	($491,611)
DL520_6560_2230 Depreciation Expense - COE Transmission	$2,546,804	$3,993,014	($1,446,210)
DL530_6560_2410 Depreciation Expense - CWF	$3,491,656	$3,836,312	($344,656)

[3] *See* 47 C.F.R. § 32.2000(g)(2)(iii)(2018).

Cause
The Beneficiary misinterpreted FCC Rules regarding how depreciation expense and accumulated depreciation amounts must be calculated within its Cost Study.

Effect
We calculated the monetary effect of this finding by adding $491,611, $344,656, and $1,446,210 to the Depreciation Expense and the associated Accumulated Depreciation of Land & Support Assets, COE Transmission, CWF assets account balance respectively in the Beneficiary's HCP filings.

We have summarized the monetary impact of this finding relative to disbursements made for HCP purposes for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($641,262)
HCL	($524,432)
CAF ICC	$0
Total	**($1,165,694)**[4]

Recommendation
We recommend that the Beneficiary 1) implement a system that ensures the Beneficiary reports accurate data to USAC for HCP purposes, 2) perform timely reviews to ensure the system is functioning properly, and 3) update its depreciation methodology to comply with the FCC Rules.

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
We agree with the finding. We utilized a vintage year depreciation methodology based on an implied decision from a previous USAC audit from 2004/2005. However, we have decided that beginning with the year 2024, we will change to the mass asset method, utilizing the beginning and ending monthly asset balances, so this should not be an issue going forward.

Finding No. 2, 47 C.F.R. § 32.12(b)(c) (2018)– Inadequate Supporting Documents-Expenses and 47 C.F.R. § 32.2(a)(b) Classification of Expense to Incorrect Part 32 Account

Condition
We obtained and examined the Beneficiary's general ledger for the 12-month period ending on December 31, 2018, and other supporting documentation (e.g., invoices, contracts). We selected

[4] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

a non-statistical sample of 36 expense transactions[5] totaling $1,384,731 for testing to determine whether the Beneficiary's expenses were accurately reported for the HCP purposes.

Out of the 36 sampled expense transactions, we determined that four Optical Network Terminal (ONT) expense transactions were classified in the wrong Part 32 account based on the support provided, which identified the four samples as assets including ONT replacement for Internet and TV, as well as mobile home post. Accordingly, the Beneficiary should have capitalized these four samples, but instead, expensed them. Additionally, the Beneficiary did not provide adequate documents to support the four ONTs expense transaction as it did not track the four expense transactions individually. Specifically, the Beneficiary accumulated all assets purchased in a blanket work order then allocated the amount to the four ONTs without adequate documentation to support the allocation factor(s) used.

As a result of these misclassified expenses and inadequate documentation, the Beneficiary overstated the account balances it reported in its HCP filings as follows:

Account	As reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
COE Transmission Expense (DL395_6230)	$3,477,814	$2,846,178	$631,636
CWF Expense (DL430_6410)	$1,980,596	$1,901,822	$78,774

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to appropriately report classification of expenses for its Part 32 accounts. The Beneficiary informed us that throughout the year, ONT's are placed, but are not individually tracked so they were unable to associate them with specific work orders/customer locations.[6]

Effect
We calculated the monetary effect of this finding by subtracting expenses of $631,636 and $78,774 from COE transmission expenses and CWF expenses, respectively, and adding those respective amounts to the COE transmission and CWF expenses balances in the Beneficiary's HCP filings. We summarized the impact of this finding relative to disbursements made for HCP purposes for the 12-month period ending December 31, 2020, in the table below.

[5] Sampling methodology is derived from the *Financial Audit Manual* (FAM), which allows for sample sizes on an entity-wide basis. This sample size is for one particular testing area of the entity and takes into consideration items such as sampling method, assessment of compliance risk, and the particular account's effect on High Cost support.
[6] Beneficiary's response to Summary of Exceptions received on 12/1/2023.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$206,646
HCL	$232,356
CAF ICC	$0
Total	**$439,002**

Recommendation
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary 1) implement a system that adequately ensures the Beneficiary reports accurate data to USAC for HCP purposes, and 2) perform timely reviews to ensure the system is functioning properly. We recommend that USAC management follow up to ensure appropriate procedures are put in place.

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
We disagree with the finding. The issue did not occur due to system conversion, but rather due to our internal process. We did submit documentation and are not sure what was missing. Throughout the year, ONT's are placed, but are not individually tracked so we are unable to associate them with specific work orders/customer locations. At the end of the year, the costs that are accumulated via a blanket work order are partially capitalized and partially expensed using an allocation based on customer service counts. We plan to try and implement a process where we can track ONT's better so that they can be associated with individual work orders.

Sikich Response
Although the Beneficiary provided invoices to support incurred expenses, the supporting documents were not adequate to support the four expenses identified as exceptions[7] because the Beneficiary did not track the expenses individually. Rather, the Beneficiary accumulated all expense transactions in a blanket work order then allocated the amount to the four ONTs without adequate documentation to support the allocation factors it utilized for its allocation. Accordingly, our position regarding this finding has not changed. However, as we acknowledged the Beneficiary's response that the root cause was not due to the system conversion, but was due to inadequate documentation, we modified the Cause of this finding for the final report.

[7] In this report, we identify an "exception" when, based on a review of the Beneficiary-provided evidence/documentation, it identifies a discrepancy or deviation from the norm resulting in audit testing. An exception results in a finding based on the materiality of the exception.

Finding No. 3, 47 C.F.R. § 32.12 (2018), 47 C.F.R. § 32.13(a)(1)(c) (2018) – Misclassified and Inadequate Documentation: Expenses

Condition

We obtained and examined documentation, including the Beneficiary's expense reports, billing reports, general ledger and cost study balances, to determine whether the Beneficiary accurately reported expenses. We randomly selected a non-statistical sample of 36 expense samples totaling $1,384,731 for testing to determine whether the Beneficiary's expenses were accurately reported for the HCP purposes.[8]

Upon review of the expense documentation and the general ledger, we determined that three out of the 36 expense samples were recorded as expenses for CWF assets; however, there was no supporting documentation to support the assets or expenses. Upon further review of the expense reports, we identified and provided the Beneficiary with a listing of 41 similar transactions totaling $98,487. The Beneficiary identified and agreed that 17 of the 41 similar expenses, in addition to the three sampled transactions (for a total of 20 expense transactions totaling $50,572) were expensed by December 31, 2018, could not be associated with any specific assets, and were not supported by any underlying documentation.

We summarized the exceptions identified in the table below:

Account	As reported in Part 64 Cost Study (A)	Adjustment (B)	Sikich Audited Balance (A)+(B)
DL430_6410 CWF Expense	$1,980,596	($50,752)	$1,929,844

Cause

The Beneficiary did not accurately monitor and report data necessary to properly record the CWF expense for HCP purposes. The CWF transactions were expensed because the Beneficiary could not relate the costs to specific assets as a result of information being lost during an internal system conversion, and records not being properly kept. As a result, the Beneficiary recorded the transactions as expenses.

Effect

We calculated the monetary effect of this finding by subtracting the expenses of $50,752 from CWF expense balance in the Beneficiary's HCP filings. We have summarized the monetary impact of this finding relative to disbursements made for HCP purposes for the 12-month period ending December 31, 2020, in the table below.

[8] The 36 expense samples are the same samples identified in Finding No. 2.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($23,272)
HCL	($15,910)
CAF ICC	$0
Total	**($39,182)**[9]

Recommendation
We recommend that the Beneficiary 1) implement a system that ensures the Beneficiary reports accurate data to USAC for HCP purposes, and 2) perform timely reviews to ensure the system is functioning properly.

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
We agree with the finding. The issue occurred due to a system conversion, which inadvertently caused errors. It was a one-time occurrence so the issue should not happen again.

Finding No. 4, 47 C.F.R. § 64.901 (2018) – Inaccurate Allocation Methodology – Cost Study Adjustments & Affiliate Transactions

Condition
We obtained and examined documentation—including a listing of the Beneficiary's cost study adjustments and supporting calculations—to determine whether the cost study adjustments were accurately calculated, supported by appropriate documentation, and accurately reported for HCP purposes for the twelve-month period ended December 31, 2018. We determined that the Beneficiary's cost allocations factors were developed using non-cost-causative factors, resulting in inaccurate cost study allocation for Other Post-Employment Benefits (OPEB), and COE ONTs with wireless capability.

The Beneficiary miscalculated the allocation amount of the non-regulated portion of the OPEB by utilizing an inaccurate allocation factor calculated using inaccurate payroll clearing amounts. Specifically, the Beneficiary calculated the allocation factor by taking the average ratio between regulated and non-regulated payroll dollar amounts from the year 2014 to 2018. We traced the regulated and non-regulated payroll amounts for each year to payroll clearing data and determined the Beneficiary miscalculated the ratio for 2014 due to a formula error. We recalculated the allocation factor with the corrected ratio from 2014 and subsequent years.

Similarly, the Beneficiary determined the allocation amount for the non-regulated portion of the COE ONTs with wireless capability based on the customer count of the three port functions on

[9] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

the giga-center (i.e., Wi-Fi Non-regulated, Voice-Regulated, and Data-Regulated). Based on an examination of the Beneficiary's submitted cost study adjustment support, we determined the Beneficiary used estimated numbers for sample-generated customer count. Pursuant to FCC Rules,[10] Beneficiaries must allocate indirect costs using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. As the Beneficiary's indirect cost allocation was based on estimated values rather than based on cost causative factors, we determined that allocation for COE ONTs with wireless capability was improper. We recalculated the allocation factors with actual customer count and applied it to allocate the indirect costs.

In the table below, we summarized the net effect of the difference between the Beneficiary's allocation factors that were used for OPEB, and COE ONTs with wireless capability reported in its HCP filings and recalculated allocation factors using the accurate payroll clearing amounts and the actual customer counts.

Adjustments	Account	Cost Study Adjustment (A)	Sikich Audited Cost Study Adjustment (B)	Variance Over/(Under) Reported (A)-(B)
Adjustment #3	Other Long-Term Liabilities and Deferred Credits (ACCT 4310)	$1,844,573	$1,883,236	($38,663)
Adjustment #7	COE – Transmission (DL240_ACCT_2230)	$209,081	$295,086	($86,005)
Adjustment #7	Accumulated Depreciation COE – Transmission (DL270_3100_2230)	$20,509	$28,946	($8,437)
Adjustment #7	Depreciation Expense COE – Transmission (DL520_6560_2230)	$15,467	$21,830	($6,363)
Total		**$2,089,630**	**$2,229,098**	**($139,468)**

As a result of inaccuracies in the Beneficiary's calculations of cost study adjustments in the December 31, 2018, filings, we recalculated the ending balance for each account as follows:

[10] See 47 CFR 64.901(b)(i)(2018).

Account	As reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
ACCT 4310 Other Long-Term Liabilities and Deferred Credits	$3,571,143	$3,609,806	($38,663)
DL240_ACCT_2230 COE Transmission	$34,724,853	$34,810,858	($86,005)
DL270_3100_2230 Accumulated Depreciation – COE Transmission	$23,628,666	$23,637,103	($8,437)
ACCT 6560 Depreciation Expense	$2,546,804	$2,553,167	($6,363)
Total	**$64,471,466**	**$64,610,934**	**($139,468)**

Additionally, we determined the Beneficiary used inaccurate allocation factors in its affiliate transactions. Specifically, we obtained and examined the Beneficiary's general ledger and cost study adjustments documentation to confirm whether the Beneficiary's affiliate transactions were accurately calculated for HCP purposes for the 12-month period ending on December 31, 2018. We then selected a non-statistical sample of 25 affiliate transactions totaling $121,777 for testing.

We determined that the Beneficiary misallocated equipment for one of the sampled lease transactions. Specifically, we found that the Beneficiary leased capacity in its affiliated entity's hybrid fiber/coax network, and the monthly lease amount consists of the gross leased investment, as well as the leased reserve and depreciation expense based on plant usage. The leased reserve in the calculation is split between broadband and video usage, which are determined based on customer counts for broadband and video subscribers. However, we noted that the Beneficiary erroneously flipped the two rates in its lease calculation, causing less reserve to be allocated as broadband services. This misallocation caused the lease expense to be understated.

We recalculated the monthly lease amount by allocating the equipment with proper allocation rates, and using correct equipment account balances that we verified in the CPR. We summarized the difference between the audited 12-month account balances and the amounts reported in the Beneficiary's Part 64 Cost Study as of December 31, 2018 in the table below:

Account	As reported in Part 64 Cost Study (A)	Sikich Audited Balance (B)	Variance Over/(Under) Reported (A)-(B)
DL395_6230 COE Transmission Expense	$3,477,814	$4,222,381	($744,567)

Given that the Beneficiary improperly allocated equipment for HCP purposes, we concluded that the Beneficiary did not report accurate lease costs.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly calculate the allocation factor using cost-causative factors to allocate non-regulated equipment for HCP purposes.

Effect

We have summarized the monetary impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2018, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($203,085)
HCL	($247,554)
CAF ICC	$0
Total	**($450,639)**[11]

Recommendation

We recommend that the Beneficiary implement system to accurately calculate the allocation factor for OPEB using accurate payroll clearing amounts. Additionally, we recommend the Beneficiary develop allocation rates for COE ONTs based on cost-causative factors and correct the cost study adjustments to include allocation of COE ONTs. For the affiliate lease transaction, we recommend the Beneficiary implement system to accurately allocate COE for lease transactions going forward.

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

We agree with the finding. We have been using a NECA accepted method, which is based upon function, to make our COE ONT allocations. Although we believe our NECA accepted method to be accurate, we can begin to use customer counts as an alternative method for allocation going forward, beginning with our 2023 cost study.

We will make the necessary changes to our lease calculations going forward.

[11] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

Finding No. 5, 47 C.F.R. § 51.917(d) (2017-2019) – Inaccurate Revenue Reporting- Transitional Interstate Access Service Revenue

Condition

We obtained and examined documentation—including the Beneficiary's billing reports, general ledger, and NECA CAF ICC True-Up statements—to determine whether the Beneficiary accurately reported payments earned for providing interstate terminating access services. We determined that the Beneficiary underreported transitional interstate access service revenue. FCC Rules[12] state that if a carrier receives payments for interstate-switched access services after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, then 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.

We have summarized the differences noted between the True-Up actual amounts of interstate billed switched access revenue for the program year 2017–2018 and 2018–2019, and the amounts recorded in the general ledger in the table below:

Revenue	Program Year July 2017 – June 2018 (A)	Program Year July 2018 – June 2019 (B)	Total Interstate Revenue July 2017-June 2019 (A)+(B)
Interstate Switched Access Revenue Reported	$271,876	$247,371	$519,247
Billing Report/General Ledger Interstate Revenue	$270,435	$250,450	$520,885
Interstate Revenue Differences	**$1,441**	**($3,079)**	**($1,638)**

As the Beneficiary's supporting documentation (e.g., billing reports, general ledger) did not agree with the amounts reported for interstate switched access revenue reported in the Beneficiary's CAF ICC filing to USAC, we concluded the Beneficiary did not accurately report revenues for interstate access services.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate interstate revenues to USAC for HCP purposes. The carrier informed us that the True-Up to actual for the program year 2017–2018 and 2018–2019 interstate switched access revenues in the Tariff Review Plan (TRP) did not match the interstate switched access revenues booked to the general ledger during the same time period because the two revenue balances were not properly reconciled.

[12] See 47 CFR 51.917(d)(1)(v)(2017-2019).

Effect
We have summarized the monetary impact of this finding relative to disbursements made for HCP purposes for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$0
HCL	$0
CAF ICC	$1,638
Total	**$1,638**

Recommendation
We recommend that USAC management seek recovery of the amount identified in the Effect section above. We also recommend the Beneficiary 1) implement a system that adequately ensures the Beneficiary reports accurate data to USAC for CAF ICC purposes, and 2) reconcile revenues before they are reported for HCP 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
We agree with the finding. We missed keying in the correct revenues when reporting for CAF-ICC. We will more carefully address the reporting of revenues for CAF ICC to make sure they match with GL amounts.

Finding No. 6, 47 C.F.R. § 54.320(b) (2018)– Lack of Documentation Resulting in Unsupported Amounts – Affiliate Transactions

Condition
We obtained and examined the Beneficiary's general ledger and cost study adjustments documentation—including documentation to support the Beneficiary's cost study allocation factors, service charge schedule, lease agreements, consolidated balance sheet and income statement—to determine whether the Beneficiary accurately calculated affiliate transactions and maintained sufficient documentation to support the calculation was performed in accordance with FCC Rules.[13] We selected a non-statistical sample of 25 affiliate transactions totaling $121,777 for testing.[14] For five of the 25 samples, the Beneficiary did not provide adequate support for affiliate transactions as follows:

[13] Per FCC Rules, carriers must retain records for 10 years from the receipt of funding.
[14] The total amount consists of sampled affiliate transactions for one period. After we determined there are exceptions in the 5 samples, we inspected the Beneficiary's general ledger transactions to determine the annualized amount for all 5 samples. We then calculated the adjustment amount for each account for

- The Beneficiary did not provide documentation to support rates used to determine the office equipment lease for 2 samples, totaling $4,161. The Beneficiary explained that the costs were based on affiliate wholesale rates at that time and that it is not able to provide documentation to support the rates in the lease agreement.

- The Beneficiary was not able to support the original calculation for two samples totaling $14,463, the fiber optic terminal equipment lease and office space lease. Rather, it provided supporting documentation to recreate the lease calculation.

The Beneficiary was not able to provide adequate supporting documentation for one of the samples which consists of multiple leases (e.g. tower lease and a radio access network lease). We determined the Beneficiary sufficiently supported the radio access network lease calculation, but the Beneficiary is not able to adequately support the tower lease as the Beneficiary is not able to provide documentation to support the power usage. We recalculated the tower lease by removing the power usage cost in the lease calculation, which we determined the lease amount is overstated by $56,932 for 2018.

We recalculated the lease amounts and determined the overstated amounts for HCP purposes in the table below.

Account	As reported in Part 64 Cost Study (A)	Adjustment (B)[15]	Sikich Audited Balance (A)+(B)
COE Transmission Expense (DL395_6230)	$856,268	($6,931)	$849,337
General Support Expense (DL350_6120)	$3,477,814	($129,708)	$3,348,106
Total			**$4,197,443**

Cause
The Beneficiary did not have an adequate system or processes in place to ensure the proper retention of records to demonstrate that the lease amounts for affiliated transactions were properly calculated.

Effect
We calculated the monetary effect by subtracting the calculated adjustment amounts from the Beneficiary's affected accounts. We have summarized the monetary impact of this finding relative to disbursements made from HCP support for the 12-month period ending December 31, 2020, in the table below.

the entire audit period.
[15] The adjustment amount is calculated for the entire audit period, thus is greater than the sampled transactions totaling $121,777.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$37,737
HCL	$44,614
CAF ICC	$0
Total	**$82,351**

Recommendation
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend the Beneficiary 1) implement an adequate system to properly calculate affiliates' allocated costs in accordance with FCC Rules, and 2) develop and implement policies, procedures, and processes to ensure that all supporting documentation is maintained.

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
We agree with the finding, except for the power allocation. Original documentation on some of the older leases had been lost and could not be recreated to match exactly. Power documentation for tower leases was provided, there just may not have been agreement as to how it was calculated. Sikich believes more kwh should have been allocated to the leases, but a lot of the tower locations include DLC cabinets at those locations that also pull power and that usage should not be attributed to the lease. Leases will be recalculated and properly documented going forward.

Sikich's Response
Although the Beneficiary noted that Sikich believes more kilowatt hours (kwh) should have been allocated to leases, our finding did not relate to the allocation methodology utilized; but rather, to the lack of documentation available to support the amounts allocated. As the documentation provided was not sufficient to support the power usage, we removed the unsupported power cost in our recalculation of the lease amount. Therefore, our position regarding this finding has not changed.

Finding No. 7, 47 C.F.R. § 64.901(b)(3) (2018)– Improper Allocation Methodology – Affiliated Transactions

Condition
We obtained and examined the Beneficiary's general ledger, cost study adjustments documentation—including documentation to support the Beneficiary's cost study allocation factors, service charge schedule, lease agreements, consolidated balance sheet, and income statement—to determine whether the Beneficiary's affiliate transactions were accurately calculated for HCP purposes for the 12-month period ending December 31, 2018.

We selected a non-statistical sample of 25 affiliate transactions totaling $121,777 for testing. Out of the 25 affiliate transactions, 15 transactions (totaling $18,149) were determined to be tariffed services of intercompany affiliates. We determined that the carrier allocated the total billed amount for tariffed services between expense and plant-under-construction accounts based on corresponding labor hours per the Beneficiary's labor hours report, which included non-regulated labor hours. We recalculated the allocation rates to properly exclude the non-regulated hours and developed new allocation factors to be applied to the carrier's invoiced amounts. We applied the new allocation factors to the allowable portion of the total invoice amount to recalculate the allocation amount for selected samples.

In addition to the change in allocations impacting the sampled affiliate expense accounts, these adjustments also impacted the amounts reported for other Part 32 accounts. Accordingly, we recalculated the allocation amount for all accounts affected by the change of allocation factors to identify new allocation amounts for 11 Part 32 accounts. As a result of the improper allocations, the Beneficiary understated its account balances reported in its HCP filings as follows:

Account	As reported in Part 64 Cost Study (A)	Adjustment (B)	Sikich Audited Balance (A)+(B)
ACCT 2003 Telecom Plant Under Construction	$3,085,584	$51,422	$3,137,006
DL190_ACCT_3100 Accumulated Depreciation	$108,675,976	$3,659	$108,679,635
DL335_6110_ Network Support Expense	$106,802	$2,761	$109,563
DL350_6120_ General Support Expense	$856,268	$6,634	$862,902
DL365_6210_ COE Switching Expense	$384,934	($23,235)	$361,699
DL395_6230_ COE Transmission Expense	$3,477,814	$8,032	$3,485,846
DL430_6410_L CWF Expense	$1,980,596	($4,691)	$1,975,905
ACCT 6510 Other Operating Expense	$103,348	$3,217	$106,565
DL450_6530 Network Operating Expense	$2,279,052	($100,310)	$2,178,742
ACCT 6620 Customer Operations Services Expense	$1,534,298	($576)	$1,533,722
DL550_6720 General Admin. Expense	$2,604,941	$2,310	$2,607,251
Total	**$125,089,613**	**($50,777)**	**$125,038,836**

The Beneficiary is required to report accurate expenses for HCP purposes. Because the Beneficiary inaccurately calculated the cost allocations amongst its intercompany affiliates, we concluded that these expenses were not recorded in the proper amount to the proper general ledger accounts; and thus, the cost study balances for HCP purposes were inaccurate.

Cause

The Beneficiary did not have an adequate system to keep track of labor hours that support the allocation rates used in tariffed services. Additionally, the Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to identify and accurately allocate expenses among its intercompany affiliates for amounts reported to USAC for HCP purposes.

Effect

We calculated the monetary effect by subtracting and adding the calculated adjustment amounts, based on the revised allocations, to the Beneficiary's submitted filings. We have summarized the monetary impact of this finding relative to disbursements made for HCP purposes for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$32,010
HCL	$32,313
CAF ICC	$0
Total	**$64,323**

Recommendation

We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary 1) implement an adequate system to properly calculate affiliate allocated costs in accordance with FCC Rules, and 2) develop and implement policies, procedures and processes that ensure only accurate regulated labor hours are used in its cost allocation calculation.

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

We agree with the finding. We made some regulated allocations against some non-regulated services charged to our regulated company. We will change our allocation methodology to adequately reflect the services used although many of the non-regulated services in question are no longer offered by the affiliate and will no longer be an issue.

<u>Finding No. 8, 47 C.F.R. § 32.12(b)(c) (2018) – Inadequate Supporting Documentation– Assets</u>

Condition

We obtained and examined the Beneficiary's general ledger for the 12-month period ending on December 31, 2018, and other supporting documentation—including invoices, payment approval/receipts, and contracts—to determine whether the Beneficiary properly recorded the assets reported for HCP purposes. We selected a non-statistical sample of 21 COE asset transactions totaling $1,205,951, as well as 22 CWF assets transactions totaling $2,573,449 for testing.

For the COE assets, we noted an exception for 1 out of the 21 samples tested. The information in the supporting documentation provided by the Beneficiary did not agree to the general ledger details and recorded value of the sample tested. For the CWF assets, 1 of the 22 samples were identified as an exception because the Beneficiary did not provide adequate supporting documentation for the sample.

As a result of inadequate documentation, we determined the Beneficiary overstated its account balances reported in its HCP filings as follows:

Account	As reported in Part 64 Cost Study (A)	Adjustment (B)	Sikich Audited Balance (A)+(B)
DL160_ACCT_2001 Telephone Plant in Service	$160,964,940	($12,739)	$160,952,201
DL255_ACCT_2410 CWF	$106,667,594	($12,739)	$106,654,855
DL240_ACCT_2230 COE Transmission	$34,724,853	($121,590)	$34,603,263
DL190_ACCT_3100 Accumulated Depreciation	$108,675,976	($8,708)	$108,667,268
DL270_3100_2230 Accumulated Depreciation – COE Transmission	$23,628,666	($82,736)	$23,545,930
DL280_3100_2410 Accumulated Depreciation – CWF	$72,914,555	($8,708)	$72,905,847
DL395_6230 COE Transmission Expense	$3,477,814	($12,178)	$3,465,636
DL430_6410 CWF Expense	$1,980,596	($237)	$1,980,359
DL520_6560_2230 Depreciation Expense – COE Transmission	$2,546,804	($8,918)	$2,537,886

Account	As reported in Part 64 Cost Study (A)	Adjustment (B)	Sikich Audited Balance (A)+(B)
DL530_6560_2410 Depreciation Expense – CWF	$3,491,656	($417)	$3,491,239

As the Beneficiary did not provide sufficient documentation to substantiate the COE and CWF assets, we could not verify that the asset transactions were recorded in the proper amount or to the proper general ledger accounts. As such, the cost study balances reported to USAC for HCP purposes were not accurate.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to individually track and associate the transactions with the specific work orders and customer locations. At the end of the year, the costs that were accumulated via a blanket work order were partially capitalized and partially expensed using an allocation based on customer service counts. As a result, the supporting documentation for the costs in the blanket work order did not correlate or support the individual cost transactions in the general ledger.

Effect

We calculated the monetary effect of this finding by subtracting and adding the calculated adjustment amounts to the Beneficiary's submitted filings. We have summarized the monetary impact of this finding relative to disbursements made for HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$6,766
HCL	$4,906
CAF ICC	$0
Total	**$11,672**

Recommendation

We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend that 1) the Beneficiary implement an adequate system to report accurate data for HCP purposes, as well as 2) perform timely reviews of the system to ensure the system is functioning properly. We recommend that USAC management follow up to ensure appropriate procedures are put in place.

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

We disagree with the finding. Throughout the year, ONT's are placed, but are not individually tracked so we are unable to associate them with specific work orders/customer locations. At the end of the year, the costs that are accumulated via a blanket work order are partially capitalized and partially expensed using an allocation based on customer service counts. Samples #6 and #9 were in error due to conversion issues. We plan to try and implement a process where we can track ONT's better so that they can be associated with individual work orders. As for the two OSP samples, the conversion was a one-time occurrence so the issue should not happen again.

Sikich Response

Per the FCC Rules,[16] the company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detailed records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission. In this situation, because the Beneficiary provided insufficient support for the specific sampled general ledger transactions, our position regarding this finding has not changed.

Finding No. 9, 47 C.F.R. § 54.7(a) (2018), FCC 15-133, FCC 18-29 – Improper Inclusion for Non-Regulated Amounts and Support Not Used for Intended Purpose of Federal Universal Support

Condition

We obtained and examined the Beneficiary’s general ledger for the 12-month period ending on December 31, 2018, and supporting documentation—including invoices, contracts, and receipts—to determine whether the Beneficiary excluded non-regulated costs from the account balances reported for HCP purposes. We also examined the documentation to confirm whether HCP support was only used for the provision, maintenance, and upgrading of facilities and services for which the support is intended, in accordance with FCC Order 15-133 and further clarified by FCC Order 18-29.

Utilizing data analytic tools, we identified 80 general ledger transactions (totaling $63,494) during the 12-month period ending on December 31, 2018, which were not incurred for the provision, maintenance, and upgrading of facilities and services for which HCP support was intended. Accordingly, the Beneficiary should have excluded these transactions from the amounts reported in its Part 64 Cost Study.

The unallowable transactions included expenses related to gifts, donations, and scholarships. As a result of including these non-regulated expenses, the Beneficiary overstated the account balances reported in its HCP filings as follows:

[16] 47 C.F.R. § 32.12(b)(c) (2018)

Account	As reported in Part 64 Cost Study (A)	Adjustment (B)	Sikich Audited Balance (A)+(B)
DL430_6410 CWF Expense	$1,980,596	($50,761)	$1,929,835
DL550_6720 General Admin. Expense	$2,604,941	($12,733)	$2,592,208

Additionally, we selected a non-statistical sample of 25 affiliate transactions (totaling $121,777) for affiliate transaction testing. We examined the bills provided for tariffed services and determined that the Beneficiary included $7,729 in expenses that were not applicable for the provision, maintenance, and upgrading of facilities and services for which HCP support is intended. Accordingly, these transactions should have been excluded from regulated balances.

The unallowable transactions included expenses related to TV streaming service, High-Definition (HD) equipment, and expanded cable TV packages. As a result of including these non-regulated expenses, the Beneificiary overstated the account balances reported in its HCP filings as follows:

Account	As reported in Part 64 Cost Study (A)	Adjustment (B)	Sikich Audited Balance (A)+(B)
DL395_6230 COE Transmission Expense	$3,477,814	($1,581)	$3,476,233
ACCT_6620 Customer Operations Services Expense	$1,534,298	($2,564)	$1,531,734
DL550_6720 General Admin. Expense	$2,604,941	($3,584)	$2,601,357

Cause

The Beneficiary did not have an adequate system in place for (1) collecting, reporting, and monitoring data to include all accounts necessary to be adjusted for the reporting of HCP purposes, and (2) for properly excluding non-regulated amounts from the amounts reported for HCP purposes. Specifically, the Beneficiary noted that it missed the items when adjusting for disallowed expenses based on FCC guidelines.

Effect

We calculated the monetary effect by subtracting the calculated adjustment amounts to the Beneficiary's submitted HCP filings. We have summarized the monetary impact of this finding relative to disbursements made for HCP purposes for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$23,568
HCL	$4,566
CAF ICC	$0
Total	**$28,134**

Recommendation
We recommend that USAC management seek recovery of the amounts identified in the Effect section above. We also recommend USAC management follow up on the Beneficiary's accounting for affiliates transactions.

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
We agree with the finding. PTCI inadvertently missed these items when correcting for disallowed expenses based on FCC guidelines.

These types of expenses have since been corrected and booked to non-regulated expense accounts so that they are no longer included in our ratemaking or USF related accounts.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(2018)	*(g) Depreciation accounting* *(2) 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."*
#2	47 C.F.R. § 32.2(a)(b) (2018)	*§ 32.2 Basis of the accounts.* *(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive*

Finding	Criteria	Description
		nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. *(b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. Additionally, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.*
#2, #3, #8	47 C.F.R. § 32.12 (2018)	*(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.* *(b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.* *(c) The Commission shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.*
#3	47 C.F.R. § 32.13(a)(1)(c) (2018)	*a) As a general rule, all accounts kept by reporting companies shall conform in numbers and titles to those prescribed herein. However, reporting companies may use different numbers for internal purposes when separate accounts (or subaccounts) maintained are consistent with the title and content of accounts and subaccounts prescribed in this system.*

Finding	Criteria	Description
		(1) A company may subdivide any of the accounts prescribed. The titles of all such subaccounts shall refer by number or title to the controlling account. *(c) As of the date a company becomes subject to the system of accounts, the company is authorized to make any such subdivisions, reclassifications or consolidations of existing balances as are necessary to meet the requirements of this system of accounts.*
#4	47 C.F.R. § 64.901 (2018)	*Allocation of costs.* *(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.* *(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated*

Finding	Criteria	Description
		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.* *(c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the* joint and common costs of facilities used to provide those services.
#5	47 C.F.R. § 51.917(d)(2017-2019)	*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. (i) Beginning July 1, 2012, 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, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909;* *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and* *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012 using the target methodology required by § 51.705.* *(ii) Beginning July 1, 2013, 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, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909;*

Finding	Criteria	Description
		(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013 using the target methodology required by § 51.705.* *(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;* *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and* *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014 using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012.* *(D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.* *(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.*

Finding	Criteria	Description
		(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.*

Finding	Criteria	Description
#6	47 C.F.R. § 54.320 (b) (2018)	*(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service HCP 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*
#7	47 C.F.R. § 64.901(b)(3) (2018)	*(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost.* *(3) Threshold. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost.*
#9	47 C.F.R. § 54.7(a) (2018)	*Intended use of federal universal service support* *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*
#9	FCC 15-133: FCC Reminds ETCs of High-Cost Support Requirements, WC Docket No. 10-90,	*Under federal law, high-cost support provided to an ETC must be used "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."* *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:*

Finding	Criteria	Description
	WC Docket No. 14-58, Public Notice. (2018)	*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.*
#9	FCC 18-29: Connect America Fund, et al., WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, 33 FCC Rcd 2990, 2994, para. 10 (2018).	*19. Personal Expenses.—Initially, we codify the existing prohibition on recovery from the HCP for 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 personal travel, personal vehicles, housing, such as rent, mortgages, or housing allowances, childcare, employee gifts, and entertainment-related expenses including food and beverage, regardless of whether such expenses are paid directly by the individual or indirectly by the carrier in the form of allowances or gifts. Personal expenses are clearly not used for the provision of supported services and thus may not be recovered through high-cost support. Furthermore, we caution recipients of high-cost support that recovering these types of expenses from high-cost support may constitute outright fraud, waste, and abuse on the Fund, subjecting employees, executives, and board members to personal civil and criminal liability.* *20. The Commission already explicitly excludes personal travel expenses from high-cost support recovery.50 Personal travel expenses include airfare, car rentals, gas, lodging, and meals for personal use. Commenters overwhelmingly agree that personal travel is unrelated to the provision of a supported service and may not be recovered through high-cost support. In*

Finding	Criteria	Description
		response to concerns raised by commenters, we find that, in contrast to personal travel expenses, reasonable work-related travel expenses are recoverable to the extent they are used for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended. For example, if an ETC's technician travels to repair a supported facility and such travel requires overnight accommodation, the ETC may recover that employee's reasonable hotel costs. *25. It is undisputed that gifts to employees may not be recovered through high-cost support. Gifts to employees are unrelated to the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended, and therefore are excluded from high-cost support.* *26. Entertainment and food and beverage expenses, including but not limited to expenses incurred for meals to celebrate personal events, such as weddings, births, or retirements, are explicitly not recoverable through high-cost support.66 Some commenters agree that entertainment expenses in particular have not been recoverable in the past. Other commenters disagree, claiming that recovering entertainment expenses incurred for "client or vendor meetings, or attendance at board meetings" is a "common and accepted practice." Some commenters maintain that they should be able to include food and beverage and entertainment expenses related to annual meetings, employee recognition, parties or picnics because such events build morale and improve service quality. The question is whether these expenses are used only for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended—not whether they are beneficial, desirable or common practice. Because these expenses do not meet our interpretation of what the statutory standard requires, we exclude them from high-cost support. As noted above, we acknowledge that meals provided during business-related travel may qualify as a reasonable per diem travel expense recoverable from high-cost support consistent with our interpretation of section 254(e).* *28. Expenses Unrelated To Operations.—We next codify the existing prohibitions on recovering support for expenses unrelated to operations—including political contributions, charitable donations, scholarships, membership fees and dues in clubs and organizations, sponsorships of conferences or community events, and penalties or fines for statutory or regulatory violations, penalties or fees for late payments on debt, loans, or other payments—from high-cost support.76*

Finding	Criteria	Description
		ETCs calculate high-cost universal support, including high-cost loop support (HCLS) and Connect America Fund Broadband Loop Support (CAF BLS) (formerly interstate common line support (ICLS)), based on their eligible capital investment and operating expenses pursuant to section 54.303. Expenses unrelated to operations, however, are not currently included in these high-cost support calculations.78 Instead, under our current rules, "nonoperating expenses"—including political contributions, contributions for charitable, social, or community welfare purposes, membership fees and dues in social, service and recreational or athletic clubs and organizations, and penalties and fines on account of violations of statutes—are recorded in Account 7300, presumed excluded from the costs of service in setting rates, and not included in high-cost support calculations. Expenses unrelated to operations have historically not been recoverable from high-cost support because by definition these expenses are not operational in nature and are ancillary to core business objectives. Expenses must fall within the scope of the statutory requirement that support be used "only for the provision, maintenance, and upgrading of facilities and services for which support is intended." Below we find that various expenses unrelated to operations, including various Account 7300 nonoperating expenses, do not satisfy this standard and, thus, may not be recovered from high-cost support. *31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support. We recognize the benefits charitable donations provide to the community, as raised by multiple commenters. However, charitable donations are unrelated to the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended.* *32. Membership fees and dues in clubs and organizations, including social, service, and recreational or athletic clubs and organizations, as well as trade associations and organizations that provide professional or trade certifications such as state bar associations, are expenses unrelated to operations excluded from high-cost support. Commenters agree that these expenses related to social and recreational clubs and organizations are already excluded from high-cost support recovery. But those same and other commenters also argue that membership fees and dues in trade associations, chambers of commerce, state bar associations and professional certifications for specialized employees should be recoverable. We recognize the educational*

Finding	Criteria	Description
		and training benefits that trade associations provide and that membership in chambers of commerce may help stimulate business. However, as other commenters acknowledge, a function of many of these organizations is advocacy on behalf of their members for the purpose of influencing public policy which is not used for the provision, maintenance, and upgrading of facilities and services for which support is intended. Just as ETCs may not recover lobbying expenses under our rules, similarly, they may not recover membership fees in organizations that engage in lobbying. Further, professional affiliations or certifications such as state bar associations, accounting associations, or other professional groups may facilitate general corporate functions but are not used only for the provision of supported facilities and services.

Sikich CPA LLC

Attachment E

HC2023LR002

Chester Telephone Company

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

USAC Audit No. HC2023LR002

TABLE OF CONTENTS

EXECUTIVE SUMMARY

February 8, 2024

Eric Ramey
VP-Regulatory and Administration
Chester Telephone Company
112 York Street
Chester, SC 29706

Dear Eric Ramey:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Chester Telephone Company (Beneficiary), study area code 240516 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, 54, 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 one (1) detailed audit finding (Finding), as discussed in the Audit Result 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 RESULT AND RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery[1]
	CAF ICC	CAF ICC
Finding: 47 C.F.R. § 51.917(d)(v) - Inaccurate Switched Access Service Revenues. The Beneficiary reported switched access revenues for High Cost Program purposes that did not agree to the general ledger for program years 2018 and 2019.	$21,459	$21,459
Total	**$21,459**	**$21,459**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 240516, for the High Cost Program support amount noted in the chart below.

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 (A)	USAC Recovery Action (A)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$21,459	$21,459	N/A
Mechanism Total	**$21,459**	**$21,459**	**N/A**

PURPOSE, SCOPE, AND PROCEDURES

PURPOSE

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

[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. See AAD Response in Finding #1 for justification of reduced recovery amount.

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)	2019	2021	$2,678,196
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2019-2020	2021	$784,686
Total			**$3,462,882**

BACKGROUND

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in South Carolina.

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 based on the dates established by FCC Rules (*i.e.,* month or year-end, as appropriate).

C. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and 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;
- The data files contained duplicate lines;
- The data files contained blank or invalid data;
- The data files contained non-revenue producing or non-working loops; and
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. 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.

E. Exchanges
AAD obtained and examined general exchange tariffs (if applicable) and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

DETAILED AUDIT FINDING

FINDING: 47 C.F.R. § 51.917(d)(v) - Inaccurate Switched Access Service Revenues

CONDITION

AAD obtained and examined the Beneficiary's Switched Access Revenues from CAF-ICC billing reports and general ledger to determine whether the Beneficiary reported accurate Switched Access Service Revenues for High-Cost program purposes for Program Years 2018 – 2019 and 2019 - 2020. AAD determined that the Beneficiary's general ledger did not agree with the revenues reported in the CAF ICC filing. The differences are summarized below:

CAF ICC Program Years	Interstate Revenues from CAF ICC Billing Reports [A]	Interstate Revenues from General Ledger [B]	Overstatement / (Understatement) [C] = [A] – [B]
2018-2019	$290,369	$298,426	($8,057)
2019-2020	$238,025	$276,560	($38,536)
		Total	**($46,593)**

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.[2] 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 with the amount that was reported, AAD concludes that the Beneficiary did not report accurate Switched Access Service 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 acknowledged the revenues were not appropriately recorded.[3]

[2] *See* 47 CFR § 51.917(b)(6) (2018).
[3] See Beneficiary response to AIR INQ 12, received November 6, 2023.

EFFECT

AAD calculated the monetary effect of this finding by adding the understated Switched Access Revenue amount reported by the Beneficiary in its CAF ICC filings for the respective Program Years as listed above in the condition. AAD summarized the impact of this finding relative to the disbursements made from the High Cost Program for the twelve-month period ending December 31, 2021, in the table below.

Fund Type	**Monetary Effect and Recommended Recovery**
CAF ICC	$23,059

RECOMMENDATION

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

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/Carrier-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The carrier acknowledges that the Interstate Switched Access Service revenues did not agree to the Interstate Switched access revenue on the general ledger, however, there are explanations for the discrepancy. In the 2018 and 2019 program years, there was $8,973.65 and $1,991.76, respectively, of interstate switched access revenue that was not received/collected from the carrier. As noted in the finding, USAC is using the general ledger as the basis for the actual realized demand, however, the general ledger records the full billed amount and not the amount realized. Per 47 CFR 51.917(b)(6), "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." Therefore, the billed revenue associated with payments not received from the carrier was correctly excluded from the true-up revenue reported in the CAF-ICC filing. In addition, there was $36,084.96 of direct trunk revenue that was recorded on the general ledger as interstate revenue that should be classified as intrastate revenue. This is the intrastate portion of the direct trunk that gets billed using the Intrastate tariff rates, and therefore is correctly reported as Intrastate revenue in the CAF-ICC filing. The carrier agrees that there is still a slight variance in revenue as there was $2,295 in trunk activation fees that were inadvertently missed in the reported interstate switched access revenue.

AAD RESPONSE

AAD acknowledges that the Direct Trunk revenue was recorded in an incorrect general ledger account and the Beneficiary reported it to the correct revenue category for CAF ICC purposes. Based on the Beneficiary response and a further review of the general ledger, AAD observed amounts reported as interstate and intrastate revenues in overall did not agree to the general ledger as follows:

Revised Condition:

CAF ICC Program Years	Interstate and Intrastate Revenues from CAF ICC Billing Reports [A]	Interstate and Intrastate Revenues from General Ledger [B]	Overstatement / (Understatement) [C] = [A] – [B]
2018-2019	$365,662	$377,872	($12,210)
2019-2020	$299,799	$331,228	($31,429)
		Total	**($43,639)**

Per 47 C.F.R. § 51.917(d)(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. Based on the FCC rules and regulations the finding remains.

AAD revised its monetary effect and the recommended recovery to $21,459 rather than $23,059. This represents a recovery decrease of $1,600.

Revised Effect:

Fund Type	Monetary Effect and Recommended Recovery
CAF ICC	$21,459

CRITERIA

47 C.F.R. § 51.917(d)(v) (2018):

> 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.

47 C.F.R. § 51.917 (b)(6) (2018):

> 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.

This concludes the report

Attachment F

HC2023LR014

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
Beneficiary & Contributor Audit Report

High Cost Audit Report

Doylestown Tel Co

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

USAC Audit No. HC2023LR014

TABLE OF CONTENTS

HURLBERT CPA LLC
regulatory audit services

Executive Summary

18 January 2024

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:

Hurlbert CPA., LLC (referred to as "we") was engaged to conduct a performance audit on the compliance of Doylestown Telephone Company (Beneficiary), study area code 300609 disbursements for the year ended December 31, 2021. We conducted the audit field work from 1 August 2023 to 18 January 2024.

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 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 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 51 and 54, 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. Our 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 did not disclose any areas 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 Federal Communication 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.

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

Sincerely,

Victor Hurlbert

Vic Hurlbert, CPA
Director
Hurlbert CPA

AUDIT RESULTS AND RECOVERY ACTION

Based on the performance audit objectives to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 51 and 54 and to determine and report on potential instances of fraud, waste and/or abuse; Hurlbert CPA's limited review performance audit procedures identified no instances of noncompliance and no potential instances of fraud, waste, and/or abuse.

PURPOSE, SCOPE AND PROCEDURES

Purpose

The purpose of our audit was to determine whether the Beneficiary complied with the 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)	2019	2021	$600,288
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018-2020	1 January 2019 – 2021	$298,686
High Cost Loop (HCL)	2019	2021	$14,814
Total			**$913,788**

Background

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in Ohio. The Beneficiary provides fiber connectivity that includes telephone, cable television and internet services.

Procedures

We performed the following procedures:

General Procedures

We obtained and examined the relevant ETC designation order to determine whether the Beneficiary had been designated as an ETC in the study area prior to receiving High Cost program support. We also obtained and examined the Beneficiary's state and/or self-certification letters to determine (1) the timeliness of the filings and (2) whether the filings included the required language that all federal High Cost Program support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

High Cost Program Support Amount

We 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

High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the 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 the FCC Rules (*i.e.,* month or year-end, as appropriate).

Subscriber Listing and Billing Records

We obtained and examined the Beneficiary's subscriber listings and billing records. We 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.

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.

Exchanges

We obtained and examined general exchange tariffs (if applicable) and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

This concludes the report

Attachment G

HC2023LR015

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
Beneficiary & Contributor Audit Report

High Cost Audit Report

Oxford County Tel

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

USAC Audit No. HC2023LR015

HURLBERT CPA LLC regulatory audit services

TABLE OF CONTENTS

Executive Summary

12 January 2024

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:

Hurlbert CPA., LLC (referred to as "we") was engaged to conduct a performance audit on the compliance of Oxford County Telephone Company (Beneficiary), study area code 100019 disbursements for the year ended December 31, 2021. We conducted the audit field work from 5 August 2023 to 12 January 2024.

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 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 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. Our 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 did not disclose any areas 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 Federal Communication 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.

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

Sincerely,

Victor Hurlbert

Vic Hurlbert, CPA
Director
Hurlbert CPA

AUDIT RESULTS AND RECOVERY ACTION

Based on the performance audit objectives to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 32, 36, 51, 54, 64, and 69 and to determine and report on potential instances of fraud, waste and/or abuse; Hurlbert CPA's limited review performance audit procedures identified no instances of noncompliance and no potential instances of fraud, waste, and/or abuse.

PURPOSE, SCOPE AND PROCEDURES

Purpose

The purpose of our audit was to determine whether the Beneficiary complied with the 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)	2019	2021	$1,703,580
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018-2020	1 January 2019 – 2021	$232,980
High Cost Loop (HCL)	2019	2021	$365,879
Total			**$2,302,439**

Background

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in Maine. The Beneficiary provides telephone services.

Procedures

We performed the following procedures:

General Procedures

We obtained and examined the relevant ETC designation order to determine whether the Beneficiary had been designated as an ETC in the study area prior to receiving High Cost program support. We also obtained and examined the Beneficiary's state and/or self-certification letters to determine (1) the timeliness of the filings and (2) whether the filings included the required language that all federal High Cost Program support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

High Cost Program Support Amount

We 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.

High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the 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 the FCC Rules (*i.e.,* month or year-end, as appropriate).

Subscriber Listing and Billing Records

We obtained and examined the Beneficiary's subscriber listings and billing records. We 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.

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.

Exchanges

We obtained and examined general exchange tariffs (if applicable) and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

This concludes the report

Attachment H

HC2023LR016

Available For Public Use

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
Beneficiary & Contributor Audit Report

High Cost Audit Report

Scott Rice Tel Co

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

USAC Audit No. HC2023LR016

TABLE OF CONTENTS

HURLBERT CPA LLC
regulatory audit services

EXECUTIVE SUMMARY

24 January 2024

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:

Hurlbert CPA., LLC (referred to as "we") was engaged to conduct a performance audit on the compliance of Scott Rice Telephone Company (Beneficiary), study area code 361479 disbursements for the year ended December 31, 2021. We conducted the audit field work from 1 August 2023 to 24 January 2024.

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 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 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 51 and 54, 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. Our 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 did not disclose any areas 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 Federal Communication 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.

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

Sincerely,

Victor Hurlbert

Vic Hurlbert, CPA
Director
Hurlbert CPA

AUDIT RESULTS AND RECOVERY ACTION

Based on the performance audit objectives to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 51 and 54 and to determine and report on potential instances of fraud, waste and/or abuse; Hurlbert CPA's limited review performance audit procedures identified no instances of noncompliance and no potential instances of fraud, waste, and/or abuse.

PURPOSE, SCOPE AND PROCEDURES

Purpose

The purpose of our audit was to determine whether the Beneficiary complied with the 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)	2019	2021	$1,228,314
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018-2020	1 January 2019 – 2021	$236,766
Total			**$1,465,080**

Background

The Beneficiary is an average schedule eligible telecommunications carrier (ETC) that operates in Minnesota. The Beneficiary provides telephone services.

PROCEDURES

We performed the following procedures:

General Procedures

We obtained and examined the relevant ETC designation order to determine whether the Beneficiary had been designated as an ETC in the study area prior to receiving High Cost program support. We also obtained and examined the Beneficiary's state and/or self-certification letters to determine (1) the timeliness of the filings and (2) whether the filings included the required language that all federal High Cost Program support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.

High Cost Program Support Amount

We 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.

High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the 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 the FCC Rules (*i.e.,* month or year-end, as appropriate).

Subscriber Listing and Billing Records

We obtained and examined the Beneficiary's subscriber listings and billing records. We 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.

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.

Exchanges

We obtained and examined general exchange tariffs (if applicable) and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

This concludes the report

Attachment I

HC2024LR005

Deposit Telephone Company

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

USAC Audit No. HC2024LR005

TABLE OF CONTENTS

EXECUTIVE SUMMARY

March 12, 2024

Duane Dickson, Manager
Deposit Telephone Company, Inc.
525 Junction Road
Madison, WI 53717

Dear Mr. Dickson:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Deposit Telephone Company (Beneficiary), study area code 150089 disbursements for the year ended December 31, 2022, 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, 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 did not disclose any areas 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 Federal Communication 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.

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

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)	2019-2022	2022	$403,002
		Total	**$403,002**

BACKGROUND

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

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.

C. Line Count Records
AAD obtained and examined the Beneficiary's line count records. AAD used computer-assisted auditing techniques to analyze the data files and determine 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. 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.

This concludes the report.

Attachment J

HC2024LR004

Tennessee Tel Co
(d/b/a TDS Telecommunications, LLC)

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

USAC Audit No. HC2024LR004

TABLE OF CONTENTS

EXECUTIVE SUMMARY

March 11, 2024

Duane Dickson, Manager
Tennessee Tel Co (d/b/a TDS Telecommunications, LLC)
525 Junction Road
Madison, WI 53717

Dear Mr. Dickson:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Tennessee Tel Co (d/b/a TDS Telecommunications, LLC) (Beneficiary), study area code 290575, disbursements for the year ended December 31, 2022, 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, FCC Rules). Compliance with Federal Communication Commission (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 did not disclose any areas 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.

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

PURPOSE, SCOPE 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)	2019-2022	2022	$1,269,384
Total			**$1,269,384**

BACKGROUND

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

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 based on the dates established by FCC Rules

C. Line Count Records

AAD obtained and examined the Beneficiary's line count records. AAD used computer-assisted auditing techniques to analyze the data files and determine 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. 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.

This concludes the report.

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Entity Disagreement
Attachment K Knology Total Communications, Inc. (formerly known as Graceba Total Communications)	5	• **Improper Continuing Property Records (CPR):** The Beneficiary failed to maintain a detailed CPR for cable and wire facility (CWF) equipment. • **Inadequate Payroll Transaction Documentation:** The Beneficiary did not provide adequate documentation to support its time entry reporting and payroll expenses.	$1,600,012	$386,035	$386,035	Partial
Attachment L Hargray Telephone Company	12	• **Inaccurate Allocation Methodology – Affiliated Transactions:** The Beneficiary's allocation of affiliate transactions included errors in the calculation.	$14,729,376	($693,343)	$0	Partial
Total	**17**		**$16,329,388**	**($307,308)**	**$386,035**	

* 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 K

HC2022LR006

Available For Public Use

Knology Total Communications, Inc.

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

USAC Audit No. HC2022LR006

TABLE OF CONTENTS

EXECUTIVE SUMMARY

April 2, 2024

Yoly Coffman, Director
Knology Total Communications, Inc.
12401 O G Sinner Drive
West Point, GA 31833

Dear Ms. Coffman:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Knology Total Communications, Inc. (Beneficiary, formerly known as Graceba Total Communication), study area code 250295, 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 five 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.

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	HCL Overlap[2]	CAF BLS Overlap[3]	Total	Total
Finding #1: 47 C.F.R. § 32.2000(e)(1-4) (2018) – Improper Continuing Property Records (CPR). The Beneficiary failed to maintain a complete detailed CPR for cable and wire facility (CWF) equipment.	$205,487	$101,932	$0	$0	$0	$307,419	$307,419[4]
Finding #2: 47 C.F.R. §§ 54.320(b), 32.12 (2018) – Inadequate Documentation: Payroll Transactions. The Beneficiary did not provide adequate documentation to support the accuracy of its time entry reporting or payroll expense transactions.	$270,181	$80,755	$0	($116,984)	($80,755)	$153,197	$153,197
Finding #3: 47 C.F.R. § 64.901(b)(3)(ii) – Improper Allocation Methodology. The Beneficiary did not use cost-causative factors to allocate corporate expenses.	$332,806	$0	$0	($332,806)	$0	$0	$0
Finding #4: 47 C.F.R. § 54.320(b) (2018) – Inadequate Documentation: Access Recovery Charge (ARC) Revenue. The Beneficiary did not provide the monthly line counts to support the ARC Revenue it reported for funding.	$0	$0	($66,828)	$0	$0	($66,828)	$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] Monetary Effect is calculated per finding on a stand-alone basis. The monetary effect for HCL is adjusted across the audit in order to avoid duplicate recovery.
[3] Monetary Effect is calculated per finding on a stand-alone basis. The monetary effect for CAF BLS is adjusted across the audit in order to avoid duplicate recovery.
[4] See adjusted Monetary Effect and Recommended Recovery in Finding #1 AAD Response.

Audit Results	Monetary Effect						Recommended Recovery
	HCL	CAF BLS	CAF ICC	HCL Overlap	CAF BLS Overlap	Total	Total
Finding #5: 47 C.F.R. § 54.903(a)(4) – Inaccurate Revenues. The Beneficiary's Common Line Revenue Requirement (CLRR) and Consumer Broadband Only Line (CBOL) Revenue Requirement per the FCC Form 509 did not agree with the Beneficiary's Part 69 cost study amounts.	$0	($7,753)	$0	$0	$0	($7,753)	$0
Total	**$808,474**	**$174,934**	**($66,828)**	**($449,790)**	**($80,755)**	**$386,035**	**$460,616**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 250295 and will seek recovery from the Beneficiary for the High Cost Program support in the amount noted in the chart below. USAC's High Cost Program management will review the recommendation internally and make a determination accordingly.

Regarding Findings #2 and #4, USAC management requires the Beneficiary to be placed on a Corrective Action Plan (CAP) to address the lack of documentation and data retention procedures. As part of the CAP, the Beneficiary must report to High Cost management, within 60 days of the date of the Recovery Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

The Beneficiary must also 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.

	HCL (A)	CAF BLS (B)	CAF ICC (C)	HCL Overlap[5] (D)	CAF BLS Overlap[6] (E)	USAC Recovery Action (A) + (B) + (C)[7] + (D) + (E)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$205,487	$101,932	$0	$0	$0	$307,419	N/A
Finding #2	$270,181	$80,755	$0	($116,984)	($80,755)	$153,197	N/A
Finding #3	$332,806	$0	$0	($332,806)	$0	$0	N/A
Finding #4	$0	$0	($66,828)	$0	$0	($66,828)	N/A
Finding #5	$0	($7,753)	$0	$0	$0	($7,753)	N/A
Total	**$808,474**	**$174,934**	**($66,828)**	**($449,790)**	**($80,755)**	**$386,035**	**N/A**

[5] Monetary Effect is calculated per finding on a stand-alone basis. The Monetary Effect for HCL is adjusted across the audit in order to not duplicate recovery.

[6] Monetary Effect is calculated per finding on a stand-alone basis. The Monetary Effect for CAF BLS is adjusted across the audit in order to not duplicate recovery.

[7] *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) Broadband Loop Support (BLS)	2018	2020	$870,972
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2018-2019	2020	$370,356
High Cost Loop (HCL)	2018	2020	$358,684
		Total	**$1,600,012**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Alabama. The Beneficiary is an affiliate of WideOpenWest (d.b.a. WOW!). Knology Total Communications purchased Graceba Total Communications (original service provider for SAC 250295) in 2008, and WOW! purchased Knology Total Communications in April 2012.

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.

C. Line Count Records

AAD obtained and examined the Beneficiary's line count records. AAD used computer-assisted auditing techniques to analyze the data files and determine 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.

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 32.2000(e)(1-4) (2018) – Improper Continuing Property Records

CONDITION

AAD obtained and examined the continuing property records (CPR) to determine whether the Beneficiary properly maintained its property records for High Cost program purposes. 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. The Beneficiary provided a complete detailed central office equipment (COE) CPR; however, it did not provide a complete detailed CPR for cable and wire facility (CWF) equipment, only a roll-forward schedule, after multiple requests.[8] The CWF balance reported in the Beneficiary's High Cost filings as of December 31, 2018 was $8,144,306, with $7,644,246 in accumulated depreciation and $92,670 in depreciation expense. AAD obtained and agreed the 2018 additions, totaling $120,126, with $1,454 in accumulated depreciation and depreciation expense. Thus, the Beneficiary was unable to support $8,024,180 of CWF equipment reported in High Cost filings, including $7,642,792 in accumulated depreciation and $91,216 in depreciation expense.

Further, AAD determined that depreciation was calculated in accordance with the FCC Rules;[9] however, all 2018 asset additions for CWF were calculated on an annual average basis instead of the monthly average basis

---

[8] AAD requested the Beneficiary to provide the CPR on its announcement letter dated January 19, 2022, and followed up with a template via audit inquiry due on March 21, 2022, July 13, 2023, August 7, 2023, August 14, 2023, and during an in-person meeting on August 30, 2023, with the cost consultant, with a due date of September 9, 2023.
[9] *See* 47 C.F.R. § 32.2000(g)(2)(iii) (2018).

required by the FCC Rules. While the variance was minimal, an overstatement of $188, due to the minute value of additions for 2018; delaying the recording of in-service assets within the actual month the assets were placed in service can impact accumulated depreciation and depreciation expense calculations.

Because the Beneficiary did not provide proper CWF CPRs or any other documentation to support its CWF assets and did not accurately report in-service dates, AAD concludes that the Beneficiary did not maintain its CPRs 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 schedules.[10] The Beneficiary must maintain detailed CPRs that include the description, location, date of placement, the essential details of construction, and the original cost of the property record units.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly include sufficient detail. The Beneficiary informed AAD that this issue occurred due to multiple corporate purchases and information being lost during the ownership transitions.[11] As the CWF assets were fully depreciated upon purchase by WOW!, the asset and depreciation balances were netted from the Balance Sheet.

EFFECT

AAD calculated the monetary effect of this finding by subtracting the portion of the unsupported amounts reported by the Beneficiary in its respective accounts on the High Cost filing and summarized the results below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$398,188
CAF BLS	$101,932
Total	**$500,020**

RECOMMENDATION

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

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 or hire an expert to conduct an inventory of the CWF plant in service and evaluate the actual original cost of the property or estimates if the original cost is unknown. The Beneficiary must also develop and implement policies, procedures, and processes that describe how the Beneficiary will properly track asset activity and update its CPR for all asset activity to ensure balances reported for High Costs Program purposes are accurate. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at

---

[10] *See* 47 C.F.R. § 32.2000(e)(7)(i) (2018).
[11] Per phone conversation on August 9, 2023, with Yoly Coffman, WOW, and Michael Moore, JSI, and documented at audit inquiry record DR#21B.

https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

As the Auditor notes, the Beneficiary provided CPRs as requested for central office equipment, and for C&W Equipment, provided a rollforward schedule which contains much of the information that is required by the Part 32 Rules. As such, it is inaccurate that the Beneficiary was unable to support $8,024,180 of CWF equipment reported in High Cost filings. On these facts, recovery of the full amount of support would be excessive and inappropriate.

The Beneficiary provided an Asset Roll Forward (including all cable and wire totals) that provides much of the information specified in Section 32.2000(e)(1-4) of the Commission's rules, including:

- The identity and location of units of property;
- Ongoing transactional data in terms of such units; and
- Other specific financial and cost accounting information needed to support regulatory cost, tax, management needs and requirements, including information about how this data is tied back to Beneficiary's GAAP books of account. (47 C.F.R. §32.2000(e)(1).)

The auditor was able to confirm that these records are subject to internal accounting controls, auditable, equal in the aggregate to the total investment in the financial property control accounts and the total cost allocations supporting cost of service at the points in time requested by the auditors. (47 C.F.R. §32.2000(e)(2). These records reveal by accounting area the detailed information necessary to confirm the foregoing, and include records for each class of property in balance sheet Accounts 2001, 2002, and 2006. (47 C.F.R. §32.2000(e)(3-4).

Specifically, each Asset Roll Forward includes the current year activity report which details all new additions for the year. This reporting proves the required asset information, and individual testing could be completed for selected years. With the majority of additions taking place per year within account 2423 (Buried Cable), entries could be selected from the previously discussed support.

Based on this documentation, it would be inaccurate to conclude that the Beneficiary was unable to support any of the stated costs, and inappropriate to recover the full amount of support. Such a removal would conclude that these assets are not in place, which is incorrect.

In any event, it is clear that the Auditor's calculation of the impact of any deficiency in recordkeeping for CWF is erroneous because the Auditor proposes to recover *more support than Beneficiary received in the relevant period*. To use HCL as an example, the Auditor proposes a recommended recovery of $398,188, yet USAC's own disbursement reports show that the Beneficiary received only $358,684 in HCL support in this period.

The Auditor's impact assessment and recommended recovery (reprinted from above):

Support Type	Monetary Effect and Recommended Recovery
HCL	$398,188
CAF BLS	$101,932
Total	**$500,020**

Per the original announcement, the documentation and disbursement period for HCL is 2020.

High Cost Support	Disbursement Period	Documentation Period (See Attachment I for details)
CAF ICC	2020	2018-2019
CAF BLS	2020	2018
HCL	2020	2018

The total support from this disbursement period can be verified on USAC's own website using the High Cost Funding Disbursement Search:

FCC Form 498 ID	Study Area Code	Study Area Name	State	Year	Month	Fund Type	Amount Disbursed
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Jan	HCL	$ 29,739.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Feb	HCL	$ 29,703.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Mar	HCL	$ 29,703.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Apr	HCL	$ 29,427.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	May	HCL	$ 29,634.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Jun	HCL	$ 29,634.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Jul	HCL	$ 31,870.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Aug	HCL	$ 29,795.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Sep	HCL	$ 29,795.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Oct	HCL	$ 29,795.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Nov	HCL	$ 29,794.00
143001542	250295	KNOLOGY TOTAL COMMUNICATIONS	AL	2020	Dec	HCL	$ 29,795.00
						Total	**$ 358,684.00**

As seen above, the total HCL received from this disbursement period is calculated at $358,684. The auditor though is calculating a HCL impact of $398,188 for this individual finding. The calculated impact exceeds the overall support the Beneficiary received. The auditor has provided no basis for its calculation of this impact was calculated, nor explained how the impact of any audit finding could result in a proposed recovery of an amount of support that exceeds the amount actually disbursed, which would not be possible. Even if it were appropriate to, The Beneficiary believes that it is not only an incorrect impact but also overestimated. Based on internal calculations of the 2020 HCL support, removal of the cable and wire asset would reduce HCL support by substantially less than the Auditor proposes. We ask that USAC reevaluate this impact and consider our detailed notice.

The Beneficiary would like to reiterate the need by USAC to re-evaluate the removal of the majority of cable and wire assets. This is completely inconsistent with other audits completed internally at USAC or using USAC's external auditors. The Beneficiary provided and discussed appropriate data (asset roll forwards, addition listings, plant studies and network mapping, etc.) to ensure that the asset is in place and should be included in the support base. USAC's finding is a maximum position and is being applied inappropriately. The Beneficiary believes its cable and wire investment is both verifiable and supported.

AAD RESPONSE

AAD acknowledges the Beneficiary provided year-end CWF asset roll forwards for 2017, 2018, and 2019. However, AAD disputes the Beneficiary's statement that the roll forwards provide much of the information specified in Section 32.2000(e)(1-4) of the Code of Federal Regulations (CFR). AAD notes the roll forwards grouped CWF assets by account number and did not provide any information regarding the individual assets within each account. As such information describing the individual units, their physical location, original cost, and costs associated with installation was not provided.

47 C.F.R. §54.320(b) stipulates that "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." The additions documented in roll forwards represent a relatively small portion of the total fixed assets reported. AAD had inquired of the Beneficiary any documentation that would support the beginning balances shown in the roll forward amounts. The Beneficiary was unable to provide any documentation to this effect. As a result, the roll forwards do not provide adequate documentation for assets added in 2017 and beyond. AAD recognizes that many of these assets may be used and useful; however, AAD cannot make an estimate where the Beneficiary has not maintained the required information (identity, vintage, location, and original cost of units of property.)

AAD acknowledges that the original calculations for the material impact of HCL were incorrect. We have reviewed the calculations in depth and adjusted the monetary effect and recommended recovery amounts in the above summaries as noted here:

Support Type	Original Monetary Effect and Recommended Recovery	Adjusted Monetary Effect and Recommended Recovery
HCL	$398,188	$205,487
CAF BLS	$101,932	$101,932
Total	**$500,020**	**$307,419**

FINDING #2: 47 C.F.R. §§ 54.320(b), 32.12 (2018) – Inadequate Documentation: Payroll Transactions

CONDITION

AAD requested documentation, including payroll distribution reports and timesheets, to determine whether the Beneficiary accurately reported its cost study balances for the twelve months ended December 31, 2018, for High Cost program purposes. The Beneficiary did not provide adequate documentation to support the accuracy of its time entry reporting or payroll expense transactions. Specifically, the Beneficiary provided AAD with an employee listing but did not receive any of the requested payroll details other than names and positions[12]. Additionally, the Beneficiary did not provide supporting documentation on whether the payroll expenses were based upon direct labor hours, or an allocation supported by cost-causative factors.[13] Beneficiaries must maintain copies of timesheets or applicable time studies, detailed allocation schedules, and other relevant documentation to substantiate that the Beneficiary recorded its payroll expenses in the proper amount and to the proper general ledger account.[14]

USAC must conduct audits in accordance with generally accepted government auditing standards,[15] which require AAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.[16] Because the Beneficiary did not provide adequate documentation to demonstrate that it supported its payroll expenses with an accurate payroll methodology, including its basis for its allocation of the payroll expense reported, AAD determined that the Beneficiary did not comply with the FCC Rules governing document retention. As a result, AAD concludes that the Beneficiary's payroll balances reported for High Cost Program purposes were not adequately substantiated.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report accurate payroll expenses for High Cost program purposes. In addition, the Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate that the allocations of payroll expenses were recorded in the proper amount and to the proper general ledger account. The Beneficiary stated it was due to system upgrades and no documentation retention from the previous payroll system.[17]

EFFECT

Because the Beneficiary did not provide documentation to substantiate its payroll expenses, AAD is unable to determine the actual payroll expense amounts that the Beneficiary should have reported for High Cost program purposes and therefore estimated the relevant monetary effect. To estimate the monetary effect of the amount, AAD deducted the payroll expense and related benefit cost and payroll tax from the balances reported by the Beneficiary in its High Cost program filings, as follows:

---

[12] AAD requested the Beneficiary to provide Employee listings and payroll information on its announcement letter dated January 19, 2022, and followed up with audit inquiry DR#34A and DR#35A on July 12, 2023; DR#34B on August 14, 2023; INQ #8 on August 29, 2023; during an in-person meeting on August 30, 2023, with the cost consultant, with a due date of September 9, 2023; and INQ#8.1 September 19, 2023.

[13] *See* 47 C.F.R. § 64.901(b)(3)(ii) (2018).

[14] *Id.*

[15] *See* 47 C.F.R. § 54.702(n) (2018).

[16] *See* U.S. Government Accountability Office, *Government Auditing Standards*, GAO-18-568G, para. 8.125 (July. 2018) (2018 Revision) (providing, "Obtaining sufficient, appropriate evidence provides auditors with a reasonable basis for findings and conclusions that are valid, accurate, appropriate, and complete with respect to the audit objectives..").

[17] Per phone conversation August 9, 2023, with Yoly Coffman, WOW, and Michael Moore, JSI, and documented within audit inquiry record #DR34A.

Support Type	Monetary Effect and Recommended Recovery
HCL	$270,181
CAF BLS	$80,755
Total	**$350,936**

RECOMMENDATION

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

The Beneficiary must develop and implement a payroll allocation method that ensures payroll amounts reported for High Cost program purposes are accurate and that factors allocating labor hours and labor dollars to its Part 32 accounts are supported by appropriate evidence. The Beneficiary must develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure it has an adequate system in place to accurately calculate its payroll allocations and maintain adequate documentation to demonstrate that it records allocations of payroll expenses in the proper amount and to the proper general ledger account. The Beneficiary may learn more information about documentation and reporting requirements at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> First, the Condition description's wording suggesting that Beneficiary failed to respond to Auditor requests for data is inaccurate. In fact, [the] Beneficiary provided all responsive information in its possession in response to the Auditor's requests.
>
> Second, the information Beneficiary provided to the Auditor was kept in a manner consistent with GAAP and provided meaningful support for [the] Beneficiary's payroll expenses as reported for USF purposes, which is the purpose of sections 32.12 and 54.320(b) of the FCC Rules. Specifically, [the] Beneficiary provided timesheets and timecards for all employees selected in the audit for the periods selected by the Auditor. The Auditor selected multiple employees for the months of March and September 2018. This support was provided either through email (September selected employees) or through BOX (March selected employees). The Beneficiary thereby substantiated each employee inquiry. The Beneficiary also provided additional information to the Auditor regarding the selected employees and records in online meetings.
>
> For example, with respect to the majority removal of account 6232 (Transmissions Expense) USAC would have to conclude that this expense would be either for non-regulated services or for a non-regulated entity, and that the regulated assets had *zero* personnel expense associated with them. The Beneficiary would like to note that a Virtual Site Visit was conducted on November 14th, 2023, by USAC in which John Parkhurst and Lawrence McNeill navigated USAC's inquires and provided visual documentation of COE equipment. If the investment was properly supported in this manner, to conclude that primarily all the expense associated with this asset is non-regulated would be improper.
>
> Removal of the detailed employee and salary entries in account 6232, account 6423, and account 6623 would be an extraordinary position and finding. USAC would have to conclude that these expenses

actually were 100% for non-regulated services or for a non-regulated entity, but there is no support for either conclusion. The Auditor's conclusion implies that there was *zero* personnel expense for the regulated assets, which is clearly inaccurate. The Beneficiary has expressed, and continues to express, a willingness to work with the Auditors to develop a reasonable allocation methodology for documented personnel expenses.

AAD RESPONSE

The Beneficiary's response indicates it interpreted the Conditions section to suggest the Beneficiary failed to respond to requests for data. In fact, the Condition states "The Beneficiary did not provide adequate documentation to support the accuracy of its time entry reporting or payroll expense transactions." AAD reiterates the fact that the Beneficiary was unable to provide a payroll distribution report to support their payroll allocation methodology. Additionally, the Beneficiary indicates it "provided all responsive information in its possession" which cannot be construed to indicate it was able to provide 100 percent of the supporting documentation requested. It is the Beneficiary's responsibility to provide and maintain support for an allocation methodology, as the auditors cannot "estimate" a percentage. AAD offered the Beneficiary an additional opportunity to provide any information that might alleviate this finding during the reporting phase of this audit but the Beneficiary failed to do so.[18] AAD's position on this finding remains unchanged.

FINDING #3: 47 C.F.R. § 64.901(b)(3)(ii) – Improper Allocation Methodology

CONDITION

AAD obtained and reviewed the Beneficiary's affiliate transaction calculations for administrative charges and common expenses (indirect costs), which are costs incurred by the Beneficiary's parent company owner for the benefit of the parent company's affiliates. The Beneficiary's calculations included documentation supporting the development of allocation factors used to allocate indirect costs from the parent company to the Beneficiary and its affiliates. The Beneficiary's documentation demonstrated that the parent company allocates indirect costs to the affiliates based on an average of revenue and the number of Incumbent Local Exchange Carrier (ILEC) Markets in the region, which are not cost-causative factors. Federal Communication Commission (FCC) regulations require allocations to be based on cost-causative factors.

As no cost-causative account information for the affiliated companies was provided to AAD, the entirety of the allocation to the Beneficiary was removed from the funding calculations. This resulted in an overstatement of expenses of $2,708,559, which impacted HCL and CAF BLS disbursements.[19] See the chart below.

Account[20]	Allocation Amount Removed
6124 – General Purpose computers expense	$195,568
6532 – Network Administration Expense	$206,508
6533 – Testing Expense	$42,942

[18] Email to Michael Moore, JSI; Yoly Coffman, WOW; and Bhavini Sokhey, JSI on March 15, 2024.

[19] The effect on CAF BLS and HCL disbursements was impacted by the corporate operations expense limitation included in the calculation of CAF BLS and HCL support.

[20] See 47 C.F.R. §32.6124, §32.6532, §32.6533, §32.6535, §32.6611, §32.6613, §32.6623, §32.6720

6535 – Engineering Expense	$25,575
6611 – Product Management and Sales	$66,989
6613 – Product Advertising	$6,232
6623 – Customer Services	$508,233
6720– General and Administrative	$1,654,513
Total	**$2,706,560**

Thus, AAD concludes that the Beneficiary applies an improper allocation methodology to allocate costs between regulated and non-regulated activities related to affiliated transactions.

CAUSE

The Beneficiary did not have a system to collect, report, or monitor data to ensure that factors it used to allocate indirect costs between affiliated entities were based on cost-causative linkages to other direct costs.

EFFECT

To calculate the impact on HCL and CAF BLS disbursements for the finding noted above, we removed the expense components from the Beneficiary's indirect cost allocation computation from the amounts reported in the Beneficiary's cost study and HCP filings, as summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$332,806
CAF BLS	$0
Total	**$332,806**

RECOMMENDATION

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

The Beneficiary must implement policies and procedures to ensure it has an adequate system in place to allocate indirect costs between affiliated entities based on cost-causative linkages to other direct costs. Further, the Beneficiary may learn more about the reporting requirements and record retention policies 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 Finding is in error because the Beneficiary's cost-allocation methodology for administrative expenses and common costs is consistent with section 64.901(b)(3) of the FCC's Rules. As the Condition report indicates, "the parent company allocates indirect costs to the affiliates based on an average of revenue and Market locations."

First, the Condition report states that relative Market locations and revenues "are not cost-causative factors," but provides no basis for this conclusion. The relative number of locations in a Market and the relative amount of revenue that a business generates are factors that bear directly on the amount of corporate overhead time and expenses are spent on the regulated business unit.

Second, contrary to the Auditor's statement, cost-causation is not the only permissible allocation methodology under section 64.901(b) of the Rules. Per section 64.901(b)(3)(iii), it is also appropriate to allocate common costs "based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities." 47 C.F.R. § 64.901(b)(3)(iii). The approach used by [the] Beneficiary is not inconsistent with this requirement. Nevertheless, Beneficiary has updated its approach for current and future filings to exclude the use of revenues in this calculation.

AAD RESPONSE

The Beneficiary's response indicates it believes this finding to be in error as its cost allocation methodology for administrative expenses and common costs is consistent with section 64.901(b)(3). Furthermore, the Beneficiary states that 64.901(b)(3)(iii) indicates allocation of common costs can be made "based on a general allocator computed by using the ratio of all expenses…".

As previously noted in this finding, pursuant to 47 C.F.R. § 64.901(b)(3)(ii), beneficiaries must allocate indirect costs using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is unavailable.[21] It also states that 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.[22] This finding relates to allocating or removing non-regulated activities, which links to the cost-causative language as required. The Beneficiary's method is unacceptable because revenue is a non-cost-causative method without cost-causative linkage. As previously stated, allocation of costs should be performed utilizing the factors that are related or feed into the generation of the costs, such as number of customers, employee time spent on tasks, and access lines, not the resulting revenue, average of revenues or market regions.

Following the FCC Rules, a ratio of expenses is applied as cost-causative, whereas revenues, by definition, are not expenses and cannot be classified as cost-causative. In addition, the Beneficiary failed to provide additional documentation or an alternative method to calculate its expense allocation based on cost-causative factors. AAD's position on this finding remains unchanged.

FINDING #4: 47 C.F.R. § 54.320(b) (2018) – Inadequate Documentation: Access Recovery Charge Revenue

CONDITION

AAD obtained and examined the Beneficiary's Tariff Review Plan (TRP) and tariff documentation to determine whether the Beneficiary accurately reported Access Recovery Charge (ARC) revenue for the twelve months ended December 31, 2018, for High Cost program purposes, specifically for the Connect America Fund Intercarrier Compensation (CAF ICC) support. Further, AAD requested the Beneficiary to provide, including

[21] See 47 C.F.R. § 64.901(b)(3)(ii) (2018).

[22] *Id.*

but not limited to, monthly actual line counts by service type to serve as underlying support for the determination of the ARC Revenue reported on its TRP.[23] Because the Beneficiary did not provide the monthly line counts to support the ARC Revenue it reported on its TRP, AAD concludes that the Beneficiary's ARC revenue balances reported for High Cost Program purposes were not adequately substantiated.

ARC amounts removed from CAF ICC calculations were:

Revenue line	2019 True Up	2020 True Up	Total
Residential ARC	$48,924	$37,548	$86,472
Single Line Business (SLB) ARC	$2,376	$1,926	$4,302
Multi-Line Business (MLB) ARC	$10,836	$8,082	$18,918
Imputed Broadband Revenues	$13,752	$14,328	$28,080
Total	$75,888	$61,884	$137,772

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate that its ARC revenue was recorded in the proper amount.[24]

EFFECT

AAD calculated the monetary effect of this finding by subtracting the total actual ARC revenue from the amounts reported in the Beneficiary's CAF ICC true-up Program Years 2017 and 2018 and summarized the results below:

Support Type	Monetary Effect[25]
CAF ICC	($66,828)

RECOMMENDATION

The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the FCC Rules. More information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

[23] AAD requested the Beneficiary to provide the line counts on its announcement letter dated January 19, 2022, and followed up with a template via Audit Inquiry Records due on March 21, 2022; July 13, 2023; August 7, 2023; August 14, 2023; and during an in-person meeting on August 30, 2023, with the cost consultant with a due date of September 9, 2023.

[24] Beneficiary did not provide a response as to why line counts could not be provided.

[25] The CAF ICC program year provides for the disbursement of funds on a July to June basis, with true-up payments disbursed two years after the program year. The true-up payment for the 2018 – 2019 CAF ICC program year was disbursed from July 2020 to June 2021 (based on data submitted in June 2020) and the true-up payment for the 2019 – 2020 CAF ICC program year was disbursed from July 2021 to July 2022 (based on data submitted in June 2021). The audit period includes an examination of disbursements paid in the calendar year 2021; therefore, the monetary effect of this Finding accounts for the last six months of the true-up payment that occurred from January to June 2021 which corresponds to the 2018–2019 program year and the first six months of the true-up payment that occurred from July to December 2020 corresponds to the 2019 – 2020 program year.

BENEFICIARY RESPONSE

The Beneficiary provided support with per month totals but did not provide breakout per line. With the CAF-ICC filing, the totals for the July-June year are filed but not broken out by line per month. The Beneficiary has reviewed their processes to ensure this level of detail can be provided in the future.

The Beneficiary has reviewed all of its recording processes to ensure all months can be individually supported, along with lines detail per each month.

FINDING #5: 47 C.F.R. §54.903(a)(4) (2018) – Inaccurate Revenues

CONDITION

AAD obtained and examined the Beneficiary's FCC Form 509, cost studies, and general ledger details to determine whether the Beneficiary reported accurate revenues for the twelve months ended December 31, 2018, for High Cost program purposes. AAD determined that the Common Line Revenue Requirement (CLRR) and Consumer Broadband Only Line (CBOL) Revenue Requirement per the FCC Form 509 were under-reported when compared to the Beneficiary's Part 69 cost study, by $9,788 and $6,284, respectively. In addition, AAD determined that the Beneficiary did not report $564 of End User Line Port revenue in its FCC Form 509.[26]

CAUSE

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

EFFECT

AAD calculated the monetary impact of this finding by adding the value of the understatement to the total amount reported by the Beneficiary in its respective account or line items on the High Cost filing. AAD summarized the results below:

Support Type	Monetary Effect
HCL	$0
CAF BLS	($7,753)
CAF ICC	$0
Total	**($7,753)**

RECOMMENDATION

The Beneficiary must enhance the preparation, review, and approval processes for reporting revenues to ensure compliance with the FCC Rules and Orders. 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/%20common-audit-findings-high-cost-program/ .

[26] The Beneficiary did not provide a reason as to the variance.

BENEFICIARY RESPONSE

The Beneficiary agrees with this finding. The Beneficiary and their consultant have a thorough review process when submitting the Form 509. The Form 509 is due at the end of the year (Dec 2019) and based on the 2018 Cost Study (which is used for the 2019-1 USF Filing). As explained to the first USAC auditing team, there was a small revision completed after the Form 509 was due in Dec 2019. This revision was completed in the beginning of 2021 and has led to the variance illustrated in your support.

The Beneficiary and their consultant continue a detailed review process to make sure the Form 509 reflects the current cost study and revenue requirement results.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(e)(1-4)	(e)Basic property records. (1) The basic property records are that portion of the total property accounting system which preserves the following 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 (2) The basic property records must be: (i) Subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and (iv) maintained throughout the life of the property. (3) The basic property records shall consist of (i) continuing property records and (ii) records supplemental thereto which together reveal clearly, by accounting area, the detailed and systematically summarized information necessary to meet fully the requirements of paragraphs (e)(1) and (e)(2) of this section. (4) Companies shall establish and maintain basic property records for each class of property recorded in the several plant accounts which comprise the balance sheet Account 2001, Telecommunications Plant In Service, Account 2002, Property Held for Future Telecommunications Use, and Account 2006, Nonoperating Plant. (f) Standard Practices for establishing and maintaining continuing property records
#1	47 C.F.R. § 32.2000(g)(2)(iii) (2018)	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.
#1	47 C.F.R. § 32.2000(e)(7)(i) (2018)	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

Finding	Criteria	Description
		prescribed in § 32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives: (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.
#2, 4	47 C.F.R. § 54.320(b)(2019)	(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
#2	47 C.F.R. §32.12	(a)The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts. (b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission. (c) The Commission shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.
#2	47 C.F.R. § 64.901(b)(3)(ii) (2018)	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.
#2	47 C.F.R. § 54.702(n) (2018)	The Administrator shall account for the financial transactions of the Universal Service Fund in accordance with generally accepted accounting principles for federal agencies and maintain the accounts of the Universal Service Fund in accordance with the United States Government Standard General Ledger. When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards. In administering the Universal Service Fund, the Administrator shall also comply with all relevant and applicable federal financial management and reporting statutes.

Finding	Criteria	Description
#3	47 C.F.R. §64.901(b)(3)(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.
#3	47 C.F.R. §32.6124	General Purpose Computers Expense This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also § 32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.
#3	47 C.F.R. §32.6532	Network Administration Expense This account shall include costs incurred in network administration. This includes such activities as controlling traffic flow, administering traffic measuring and monitoring devices, assigning equipment and load balancing, collecting and summarizing traffic data, administering trunking, and assigning interoffice facilities and circuit layout work.
#3	47 C.F.R. §32.6533	Testing Expense This account shall include costs incurred in testing telecommunications facilities from a testing facility (test desk or other testing system) to determine the condition of plant on either a routine basis or prior to assignment of the facilities; receiving, recording and analyzing trouble reports; testing to determine the nature and location of reported trouble condition; and dispatching repair persons or otherwise initiating corrective action.
#3	47 C.F.R. §32.6535	Engineering Expense a) This account shall include costs incurred in the general engineering of the telecommunications plant which are not directly chargeable to an undertaking or project. This includes developing input to the fundamental planning process, performing preliminary work or advance planning in connection with potential undertakings, and performing special studies of an engineering nature. (b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours
#3	47 C.F.R. §32.6611	Product Management and Sales This account shall include: (a) Costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels. (b) Costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.

Finding	Criteria	Description
#3	47 C.F.R. §32.6613	Product Advertising This account shall include costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes nonproduct-related advertising, such as corporate image, stock and bond issue and employment advertisements, which shall be included in the appropriate functional accounts.
#3	47 C.F.R. §32.6623	Customer Services (a) This account shall include costs incurred in establishing and servicing customer accounts. This includes: (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts; (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills; (4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. (b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations.
#3	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.

Finding	Criteria	Description
		(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; (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

Finding	Criteria	Description
		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.
#5	47 C.F.R. §54.903(a)(4)	Each rate-of-return carrier shall submit to the Administrator on December 31 of each year the data necessary to calculate a carrier's Connect America Fund CAF BLS, including common line and consumer broadband-only loop cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line CAF BLS amounts to the extent of any differences between the carrier's CAF BLS received based on projected common line cost and revenue data, and the CAF BLS for which the carrier is ultimately eligible based on its actual common line and consumer broadband-only loop cost and revenue data during the relevant period. The data shall be accompanied by a certification that the cost data is compliant with the Commission's cost allocation rules and does not reflect duplicative assignment of costs to the consumer broadband-only loop and special access categories.

This concludes the report.

Attachment L

HC2022LR015

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

LIMITED REVIEW PERFORMANCE AUDIT

HARGRAY TELEPHONE COMPANY

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND

HIGH COST SUPPORT MECHANISM RULES

USAC AUDIT NO. HC2022LR015

SIKICH®

Sikich CPA LLC
333 John Carlyle Street, Suite 500
Alexandria, Virginia 22314
703.836.6701, phone
www.sikich.com

CONTENTS

333 John Carlyle Street, Suite 500
Alexandria, VA 22314
703.836.6701

SIKICH.COM

Executive Summary

April 14, 2023

Teleshia Delmar, Vice President - Audit and Assurance Division
Universal Service Administrative Company
700 12th Street NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Sikich CPA LLC[1] (referred to as "we") was engaged to conduct a limited review performance audit on the compliance of Hargray Telephone Company, Inc. (Beneficiary), study area code **240523** 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 March 31, 2022, to April 14, 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 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 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, as 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 the FCC Rules based on our limited scope performance audit.

Based on the test work performed, our audit disclosed 12 detailed audit findings, as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a "finding" is a

[1] Effective December 14, 2023, we amended our legal name from "Cotton & Company Assurance and Advisory, LLC" to "Sikich CPA LLC" (herein referred to as "Sikich"). Effective January 1, 2024, we acquired CLA's federal practice, including its work for the Universal Service Administrative Company.

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 requesting third party.

Audit Results and Recovery Action

Our performance audit procedures identified 12 detailed findings, which are summarized below. Please see Appendix A for a comparison to the 2016 Audit Findings.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 1: 47 C.F.R. § 64.901 (2018-2019) – Inaccurate Reporting: Cost Study Adjustments – Expenses. The Beneficiary did not accurately calculate expense adjustments made to their Cost Study for HCP purposes.	$1,021	$27,230	$0	$28,251	$28,251
Finding No. 2: 47 C.F.R. § 51.917(d) (2017-2019) – Inaccurate Revenue: Interstate Switched Access Service Revenue and Intrastate Terminating Switched Access Service Revenue The Beneficiary underreported its Interstate Switched Access Service Revenues and Intrastate Terminating Switched Access Services Revenues.	$0	$0	$307,375	$307,375	$307,375
Finding No. 3: 47 C.F.R. § 54.320(b) (2018-2019) and 47 C.F.R. §54.902 (2018) – Inadequate Documentation: Form 509. The Beneficiary did not accurately report End User Subscriber Line Charge (SLC) and End User Line Port Revenue and Consumer Broadband Only Lines	$0	$0	$0	$0	$0

[2] The High Cost program does not pay additional support in the event of a finding resulting in an underpayment.

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
(CBOLs) on the FCC Form 509 for HCP purposes.					
Finding No. 4: 47 C.F.R. § 32.6112(b) (2018-2019), 32.6512(b) (2018-2019) , 32.6534(b) (2018-2019) and 32.6535(b) (2018-2019) – Improper Distribution of Overhead Expenses. The Beneficiary used direct labor dollars instead of direct labor hours when distributing its overhead expenses.	$24,807	$44,985	$0	$69,792	$69,792
Finding No. 5: 47 C.F.R. § 64.901(b) (2018-2019) - Improper Inclusion of Nonregulated Assets – Spare Fiber Allocation. The Beneficiary's Cable and Wire Facilities (CWF) categorization demonstrated incorrect Category 1 amounts.	$33,848	$40,090	$0	$73,938	$73,938
Finding No. 6: 47 C.F.R. § 64.901(b)(3)(ii) (2018-2019), 47 C.F.R. § 32.27 (2018-2019) – Inaccurate Allocation Methodology – Affiliated Transactions. The Beneficiary's allocation of affiliate transactions demonstrated errors in calculation.	($903,818)	$75,279	$0	($828,539)	$0
Finding No. 7: 47 C.F.R. § 36.121(b)(c)(d) (2018-2019) – Inaccurate Reporting: Central Office Equipment. The Beneficiary's Central Office Equipment (COE) common cost distribution demonstrated errors for HCP purposes.	($47,113)	$30,142	$0	($16,971)	$0

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 8: 47 C.F.R. § 64.901(b)(3)(ii) (2018-2019) and 47 C.F.R. § 54.320(b) (2018-2019) – Inaccurate/Inadequate Allocation Factors. The Beneficiary used outdated data inputs for the removal of nonregulated activities from joint use assets and did not have supporting documentation for a factor developed for the removal of expenditures due to nonregulated activities.	($321,829)	$26,476	$0	($295,353)	$0
Finding No. 9: 47 C.F.R. § 54.320(b) (2018-2019) and 47 C.F.R. § 64.901(b) (2018-2019) – Inadequate/Inaccurate Documentation: Assets. The Beneficiary was unable to provide adequate documentation for five asset samples.	$9,636	$12,858	$0	$22,494	$22,494
Finding No. 10: 47 C.F.R. § 32.2(a)(b) (2018-2019) – Misclassification of Part 32 Accounts: Expenses. The Beneficiary's Part 32 expense accounts included three misclassified expenses.	$5,621	$8,423	$0	$14,044	$14,044
Finding No. 11: 47 C.F.R. § 51.917(e)(1), (2) (2017-2019) and 47 C.F.R. § 51.917(f)(2) (2017-2019) – Inaccurate Reporting of Revenue for Access Recovery Charges. The Beneficiary did not accurately report revenues for Access Recovery Charges.	$0	$0	$12,379	$12,379	$12,379

Audit Results	Monetary Effect				Recommended Recovery[2]
	CAF BLS	HCL	CAF ICC	Total	
Finding No. 12: 47 C.F.R. § 32.2000(g)(2) (2018-2019) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary did not calculate its depreciation using the average monthly asset balance, as required by FCC Rules.	($34,628)	$7,875	$0	($26,753)	$0
Total Net Monetary Effect	**($1,232,455)**	**$273,358**	**$319,754**	**($639,343)**[3]	**$528,273**

USAC Management Response

USAC management concurs with the audit results for SAC 240523, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	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	$1,021	$27,230	$0	$28,251	N/A
Finding #2	$0	$0	$307,375	$307,375	N/A
Finding #3	$0	$0	$0	$0	N/A
Finding #4	$24,807	$44,985	$0	$69,792	N/A
Finding #5	$33,848	$40,090	$0	$73,938	N/A
Finding #6	($903,818)	$75,279	$0	($828,539)	N/A
Finding #7	($47,113)	$30,142	$0	($16,971)	N/A
Finding #8	($321,829)	$26,476	$0	($295,353)	N/A
Finding #9	$9,636	$12,858	$0	$22,494	N/A
Finding #10	$5,621	$8,423	$0	$14,044	N/A
Finding #11	$0	$0	$12,379	$12,379	N/A
Finding #12	($34,628)	$7,875	$0	($26,753)	N/A
Total	**($1,232,455)**	**$273,358**	**$319,754**	**($639,343)**	**N/A**

[3] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

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's recovery action is $0.

Background and Program Overview

Background

Hargray Telephone Company, Inc. (HTC), is a cost-based Eligible Telecommunications Carrier (ETC) that provides service to more than 17,000 subscribers in neighboring locations in South Carolina. The Beneficiary is a wholly owned operating subsidiary of the Hargray Communications Group (HCG). The Beneficiary provides advanced communications and entertainment services—including Internet, TV, and phone—to residential and commercial customers.

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 those 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 (CAF) Intercarrier Compensation (ICC) Support:** CAF ICC support is available to rate-of-return ILECs to assist them in offsetting ICC 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 disbursement period of 2020.

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

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF BLS	2018	2020	$8,096,850
HCL	2018–2019	2020	$4,457,082
ICC	2017–2019	2020	$2,175,444
		Total	**$14,729,376**

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 (CPRs) work orders, invoices, and related documentation to determine whether the Beneficiary reported accurate central office switching equipment balances, as well as CWF

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. § 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 utilized 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 Findings

<u>Finding No. 1: 47 C.F.R. § 64.901 (2018-2019) – Inaccurate Reporting: Cost Study Adjustments – Expenses</u>[4]

Condition
We obtained and examined the Beneficiary's supporting documentation for 59 cost study adjustments (i.e., 37 adjustments for its December 31, 2018, filing period; 22 adjustments for its March 31, 2019, filing period) to determine whether the Beneficiary accurately reported amounts for HCP purposes. FCC Rules require that carriers separate their regulated costs from nonregulated costs using the attributable cost method of cost allocation.[5] Further, carriers must follow certain principles when assigning or allocating costs to regulated and nonregulated activities.[6]

Upon examination of supporting documentation, we identified inaccuracies in the calculations of the following expense adjustments made to the Cost Study for the filing periods of December 31, 2018, and March 31, 2019, as follows:

- **Expense Adjustment 29:** The Beneficiary created expense adjustment 29 for the purposes of transferring expenses to the correct account and excluding expenses in accordance with FCC Order 18-29. The documentation for the entry included the Beneficiary's assessment of their Call Center labor entries, as recorded in their Part 32 account 6620 (Customer service). The Beneficiary applied a ratio of 50/50 to transfer 50 percent of their labor costs from account 6620 to account 6610 (Marketing). Although the 50/50 ratio was supported by the factor of employee head count, our recalculation of the 50/50 split between account 6620 and account 6610 showed that the Beneficiary omitted an entry of $9,143 that should have been included for the 50/50 split of costs. Subsequently, the Beneficiary performed a secondary allocation to spread the adjusted balances of accounts 6610 and 6620 among the Beneficiary's related party entities utilizing access line counts. Upon validation of the access lines allocation, we noted that the allocation percentages only added up to 90 percent. We updated the allocation by recalculating, using the correct allocation percentage derived from the usage of the access lines documentation provided.

- **Expense Adjustment 2:** The Beneficiary created expense adjustment 2 for the purposes of adjusting book taxes to reflect deregulated cost study adjustments. It was noted through inspection of the adjusting entry that all exceptions[7] identified in expense adjustment testing to the Cost Study for the filing periods of December 31, 2018, and March 31, 2019, would impact the expense adjustment 2 entry. As such, we updated

[4] This is a repeat finding from the prior audit. See Appendix A for comparison to prior audit results.
[5] *See* 47 C.F.R. § 64.901 (2018-2019).
[6] *Id*.
[7] In this report, we identify an "exception" when, based on a review of the Beneficiary-provided evidence/documentation, it identifies a discrepancy or deviation from the norm resulting in audit testing. An exception results in a finding based on the materiality of the exception.

expense adjustment 2 by considering all expense adjustment with errors. See findings 6 through 9 of the audit report for all other expense adjustments for which we observed miscalculations.

As a result of inaccuracies in the Beneficiary's calculations of expense adjustments in both the filing periods of December 31, 2018, and March 31, 2019, the following differences were identified between what was reported, and we recalculated adjustments as follows:

Part 64 Adjustment – Expenses			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
12-Month Period Ended December 31, 2018			
Marketing Expense (Account 6610)[8]	$1,726,584	$1,722,555	$4,029
Customer Expense (Account 6620)[9]	$414,665	$410,636	$4,029
Operating Taxes (Account 7200)	$4,930,175	$3,148,121	$1,782,054
12-Month Period Ended March 31, 2019			
Operating Taxes (Account 7200)	$4,707,342	$4,623,022	$84,320

Because of errors and miscalculations in the development of the Beneficiary's expense adjustments to the Cost Study for filing periods of December 31, 2018, and March 31, 2019, we determined that the Beneficiary did not accurately report expense balances for HCP purposes.

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure accurate calculations of adjustments were done for the reporting for HCP purposes.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by applying the following adjustments to the CAF BLS and HCL algorithms and by subtracting the overstated balances for the filing period as of December 31, 2018, as follows: $4,029 from account 6610, $4,029 from account 6620, and $1,782,054 from account 7200. For the Beneficiary's HCP filing as of March 31, 2019, we subtracted the overstated balance of $84,320 from account 7200 in the HCL algorithm.

We summarized the resulting impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

[8] Account 6610 (Marketing) only applies to the period of January 1, 2018 – December 31, 2018.
[9] Account 6620 (Customer service) only applies to the period of January 1, 2018 – December 31, 2018.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$1,021
HCL	$27,230
CAF ICC	$0
Total	**$28,251**

Recommendation
We recommend USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implement an adequate system to develop, review, and report cost study adjustments to ensure accurate reporting of data for HCP purposes.

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
(Agree) The Beneficiary acknowledges this exception and the subsequent calculation updates to the study adjustments. The Beneficiary has reviewed this exception and made the necessary updates for future filings.

Finding No. 2: 47 C.F.R. § 51.917(d) (2017-2019)– Inaccurate Revenue: Interstate Switched Access Service Revenue and Intrastate Terminating Switched Access Services Revenue[10]

Condition
We obtained and examined the Beneficiary's billing reports, detailed general ledger, and Tariff Review Plan data to determine whether the Beneficiary reported accurate Interstate Switched Access Revenue (Interstate Revenue) and Intrastate Terminating Switched Access Services Revenue (Intrastate Revenue) for HCP purposes. Per FCC Rules, a carrier must report accurate Interstate Revenue and Intrastate Revenue to determine their eligible recovery.[11] We verified the recording of the Interstate and Intrastate Revenues in the Beneficiary's general ledger as part of our Interstate and Intrastate Revenue testing.

The Beneficiary's traffic element reports (billing reports) include the Interstate Revenue and the Intrastate Revenue for both their ILEC and Competitive Local Exchange Carrier (CLEC) exchanges thus, the total line on the billing reports should agree to the general ledger. Our reconciliation from the Beneficiary's billing reports to the general ledger showed differences in Program Year 2018–2019; however, because the general ledger includes CLEC exchanges, it did not provide an accurate basis for reconciliation. As such, we alternatively reconciled billing reports, which were verified to include only ILEC exchanges, to the reported Interstate Revenue

[10] This is a repeat finding from the prior audit. See Appendix A for comparison to prior audit results.
[11] *See* 47 C.F.R. § 51.917(d) (2017-2019).

and Intrastate Revenue on the Tariff Review Plan for Program Years 2017–2018 and 2018–2019 and identified differences in both years, as follows:

Interstate Revenue		
Revenue	**Program Year: July 2017 – June 2018**	**Program Year: July 2018 – June 2019**
Interstate Revenue Reported	$1,668,128	$1,235,102
Billing Report for Interstate Revenue	$1,724,297	$1,577,089
Interstate Revenue Difference (Understated)	**($56,169)**	**($341,987)**

Intrastate Revenue		
Revenue	**Program Year: July 2017 – June 2018**	**Program Year: July 2018 – June 2019**
Intrastate Revenue Reported	$163,437	$237,183
Billing Report for Intrastate Revenue	$313,234	$303,979
Intrastate Revenue Difference (Understated)	**($149,797)**	**($66,796)**

Because the Beneficiary's billing reports—including its ILEC exchanges—did not agree to the amounts reported on the Tariff Review Plan for both Program Years, we concluded that the Beneficiary did not accurately report the Interstate Revenue and the Intrastate Revenue for HCP purposes.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to accurately report the Interstate Revenue and the Intrastate Revenue reported for HCP purposes. The Beneficiary acknowledges that human error during a billing system transition contributed to the variance in reported revenue.[12]

Effect

We calculated the monetary impact to the Beneficiary's HCP filing by adjusting the CAF ICC algorithm to add the understated revenue amounts of ($56,169) and ($341,987) to the Interstate Revenue and to add the understated revenue amounts of ($149,797) and ($66,796) to the Intrastate Revenue reported for the Program Years July 2017 – June 2018 and July 2018 – June 2019, respectively. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

[12] Per the Beneficiary's response to the Exception Summary received September 28, 2023.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$0
HCL	$0
CAF ICC	$307,375[13]
Total	**$307,375**

Recommendation
We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implement an adequate system to report accurate data for HCP purposes, as well as perform a timely review of the system to ensure proper functionality of the system. The Beneficiary should refile any High Cost filings in which it used similar methods to calculate the Interstate and Intrastate Revenues.

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
(Agree) The Beneficiary acknowledges that it inadvertently underreported Interstate and Intrastate access revenue as a result of a billing system conversion and transition during the period under review.

Finding No. 3: 47 C.F.R. § 54.320(b) (2018-2019) and 47 C.F.R. § 54.902 (2018)- Inadequate Documentation: Form 509

Condition
End User Subscriber Line Charge (SLC)Revenue and End User Line Port Revenue:
We obtained and examined the Beneficiary's FCC Form 509, the National Exchange Carrier Association (NECA) EC2060-L Report, and general ledger to determine whether the Beneficiary reported accurate end user SLC Revenue and end user Line Port Revenue for HCP purposes. Per FCC Rules, all eligible telecommunications carriers shall retain all records required to demonstrate to auditors that universal service high-cost support received was consistent with the universal service high-cost program rules.[14]

Utilizing the monthly view of NECA's EC2060-L Report that equals the annual amounts reported on the FCC Form 509, we verified the recording of end user SLC and end user Line

[13] The monetary effect listed only represents disbursements during Calendar Year 2020. We noted at least $307,375 in improper disbursements were made in the immediate prior and subsequent periods. Given that there are four years between audit data periods—and the fact that the Beneficiary has changed billing systems and personnel, coupled with lack of adequate reconciliation procedures—it is reasonably possible that the monetary effects between the 2016 and 2020 disbursement audits would vary in the direction of an overpayment in 2016 versus an underpayment in 2020.
[14] *See* 47 C.F.R. § 54.320(b) (2018-2019).

Port Revenues to the Beneficiary's general ledger for data period 2018. Our reconciliation of the Beneficiary's general ledger recording of end user SLC and end user Line Port Revenues to the monthly reported amounts on NECA's EC2060-L Report identified the following discrepancies:

- **End User SLC Revenue:** No entries were found for the months of January and February 2018 on the Beneficiary's general ledger.

- **End User Line Port Revenue:** No entries were found for the months of January and February 2018 on the Beneficiary's general ledger.

As such, we identified the following differences:

End User SLC Revenue	For Data Period 2018
Reported on FCC Form 509	$1,594,980
Reported per general ledger	$1,259,695
End User SLC Revenue Difference	**$335,285**

End User Line Port Revenue	For Data Period 2018
Reported on FCC Form 509	$41,701
Reported Per general ledger	$35,351
End User Line Port Revenue Difference	**$6,350**

To account for the missing months of unrecorded revenue, the Beneficiary calculated estimates of end user SLC and end user Line Port revenues for January and February of 2018, in an attempt to report to NECA to prevent an overpayment of HCP support.

Consumer Broadband Only Line (CBOL) Counts:
The Beneficiary was unable to support counts for CBOL with bills from January 2018–December 2018 which impacted the average monthly broadband-only loop on the Form 509. In addition to the Form 509, CBOL counts were also utilized in the Beneficiary's Plain Old Telephone Service (POTS) versus broadband allocation for COE asset categorization under the filing period ending on December 31, 2018, and filing period ending on March 31, 2019. The Beneficiary calculated an estimate for the missing months that were comparable to the months of December 2017 and February 2019, for which it had supporting documentation.

Because the Beneficiary's system did not properly account for and record end user SLC Revenue and end user Line Port Revenue for the months of January and February 2018 or CBOLs for the filing period ending on December 31, 2018 and filing period ending on March 31, 2019 —and, in turn, did not agree to the reported amounts on the FCC Form 509 as of December 31, 2018, we concluded that the Beneficiary did not accurately report the revenues and CBOLs for HCP purposes.

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to accurately report the end user SLC and end user Line Port Revenues or CBOLs for HCP purposes. Per inquiry with the Beneficiary as to why no general ledger entries were included for the end user SLC and end user Line Port Revenues for January and February 2018, the Beneficiary stated that:

On a full year basis for 2018, however, Hargray's journalization process did not provide sufficient detail for this process to work in January and February. When we did a month-by-month analysis, the months of January and February were zero in the GL. To ensure that we are not overpaid, Hargray tries to err on the side of underreporting revenues.[15]

Effect
We do not recommend a recovery, as an accurate account of what the end user SLC and end user Line Port Revenues for January and February could not be determined because no general ledger entries were made to account for them. Additionally, the Beneficiary could not provide data that would allow for determination of accurate revenue for the missing months of entries. As the Beneficiary billed for those charges and collected the revenue, it would be improper to propose an underpayment for the unsupported data that cannot be quantified.

As the estimated CBOL counts appear reasonable, and we cannot determine a monetary effect due to lack of appropriate evidence, we will not recommend any monetary effect.

Recommendation
We recommend that the Beneficiary implement an adequate system to collect, maintain, and report accurate data for HCP purposes, as well as perform timely reviews of the system to ensure proper functionality of the system.

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
(Agree) The Beneficiary acknowledges the lack of documentation related to the Subscriber Line Charges and CBOL line counts. The Beneficiary will review its documentation procedures to make sure that full documentation is maintained going forward.

Finding No. 4: 47 C.F.R. § 32.6112(b) (2018-2019), 32.6512(b) (2018-2019), 32.6534(b) (2018-2019) and 32.6535(b) (2018-2019) – Improper Distribution of Overhead Expenses[16]

Condition
We obtained and examined the Beneficiary's clearing process narrative, clearing reports, and general ledger to determine whether the overhead amounts in Part 32 (accounts 6110, 6112,

[15] The Beneficiary's response is from our inquiry #78 on the Audit Inquiries Listing for the audit.
[16] This is a repeat finding from the prior audit. See Appendix A for comparison to prior audit results.

6113, 6114, 6512, 6534, and 6535) were (1) cleared to construction and/or plant-specific operations expense accounts and (2) allocated based on direct labor hours or suitable loading charge where appropriate. We selected a non-statistical sample of one month per the Beneficiary's High Cost filing as of December 31, 2018, and as of March 31, 2019.

Upon review of the Beneficiary's documentation of overhead clearing, we identified the following:

- **Outdated and Non-Reflective Process Narrative:** The Beneficiary's clearing process narrative was dated March 2011, and it identifies that 10 years ago, a study was done to allocate sales tax, freight and warehouse expense to material charged. The study found that 95 percent of the monthly disbursements were used on capital projects from inputs of warehouse and plant personnel's actual use of material. Since the audit is data year January 1, 2018, to March 31, 2019, we deemed the process narrative to be outdated and non-reflective of the data from current operations that would be utilized to derive allocation factors.

- **Account 6112 for Motor Vehicle Expense, Account 6512 for Provisioning Expense, Account 6534 for Plant Operations Administration, and Account 6535 for Engineering Expense:** The Beneficiary credited account 6112 (Motor Vehicle Expense), account 6512 (Provisioning Expense), account 6534 (Plant Operations Administration), and account 6535 (Engineering Expense) to construction and/or plant-specific operations expense accounts; however, these accounts were cleared on the basis of direct labor dollars, not on the basis of direct labor hours, as required by FCC rules. Per 47 C.F.R. § 32.6112 (b), *"Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours."* [17] For account 6512, per 47 C.F.R. § 32.6512 (b) *"Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge."* [18] For account 6534 and 6535, per 47 C.F.R. § 32.6534 (b) and 47 C.F.R. § 32.6535 (b), "*Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours.*"[19]

In the tables below, we summarize the effect to account balances reported for HCP purposes:

[17] *See* 47 C.F.R. § 32.6112(b) (2018-2019).
[18] *See* 47 C.F.R. § 32.6512(b) (2018-2019).
[19] *See* 47 C.F.R. § 32.6534(b) (2018-2019); 47 C.F.R. § 32.6535(b) (2018-2019).

Recalculation of Part 64			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Over/(Under) Reported (A-B)**
12-Month Period Ended December 31, 2018			
Telecommunications plant under construction-short term (Account 2003)[20]	$6,523,319	$6,338,717	$184,602
Central Office Switching Expense (Account 6210)	$967,496	$924,129	$43,367
Central Office Transmission Expense (Account 6230)	$801,994	$786,739	$15,255
CWF Expense (Account 6410)	$1,929,724	$1,881,637	$48,087
Marketing Expense (Account 6610)[21]	$ 1,726,584	$1,725,332	$1,252
12-Month Period Ended March 31, 2019			
Central Office Switching Expense (Account 6210)	$1,044,666	$985,209	$59,457
Central Office Transmission Expense (Account 6230)	$825,113	$805,224	$19,889
Cable and Wire Facilities Expense (Account 6410)	$2,023,571	$1,974,757	$48,814

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly distribute and record the overhead clearing expenses to the related plant specific operations expense accounts using direct labor hours. The Beneficiary acknowledges that it utilized an outdated allocation to report Overhead costs.[22] Per discussion, we noted that the Beneficiary believes that there is little cost-benefit to updating the allocations to reflect current year data, as they determine that change to be immaterial.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances—as stated in the "Recalculation of Part 64" table above—for the periods ending December 31, 2018, and March 31, 2019. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

[20] Account 2003 (Plant Under Construction) only applies to the period of January 1, 2018 – December 31, 2018.
[21] Account 6610 (Marketing) only applies to the period of January 1, 2018 – December 31, 2018.
[22] Per the Beneficiary response to the Exception Summary received September 28, 2023.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$24,807
HCL	$44,985
CAF ICC	$0
Total	**$69,792**

Recommendation
We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary develop policies and procedures and implement adequate system functionality to ensure it properly calculates and distributes its overhead expenses to the related plant specific operations expense accounts using direct labor hours.

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
(Agree) The Beneficiary acknowledges that the methodology used to distribute overhead expenses was outdated. The Beneficiary has reviewed its clearing process and made any necessary updates for future filings.

Finding No. 5: 47 C.F.R. § 64.901(b) (2018-2019): Improper Inclusion of Nonregulated Assets - Spare Fiber Allocation

Condition
We obtained and examined the Beneficiary's CWF route allocation for the periods ending December 31, 2018 (Dash 1), and March 31, 2019 (Dash 2), to determine whether the route investment costs were assigned to the proper category and accurately reported for HCP purposes. We verified the Beneficiary utilized the residual method to categorize its Category 1 CWF assets. The residual method consists of identifying all Category 2–4 interexchange CWF assets and deducting these assets from the total CWF balance to determine what should be reported as the Category 1 CWF balance.[23] The Beneficiary must only apportion to Category 1 CWF the costs for facilities used to connect an exchange's central offices to subscriber premises in that same exchange.[24]

Upon examination of the Beneficiary's CWF route allocation, we identified the following errors:

- When verifying the total fiber pair count on the Beneficiary's CWF route allocation, we identified a difference of 798 in count between the total fiber pair calculated by the Beneficiary to the total fiber pair recalculated by our team. Per inquiry with the

[23] *See* 47 C.F.R. 47 § 36.152(a)(1) (2018-2019).
[24] *See* 47 C.F.R. 47 § 36.154(a) (2018-2019).

Beneficiary, "the remaining fibers were not properly allocated to Dark as they should've been."25 Thus, the difference of 798 in count should have been allocated to the Beneficiary's Dark category on their CWF route allocation.

- When verifying the categorization of investment, we identified that the dark fiber category showed that spare fibers were not categorized in the same proportion as the in-use fibers within the route allocation. According to FCC Rule 47 C.F.R. § 64.901(b)(4), outside plant investment costs shall be based upon the relative regulated and nonregulated usage of the investment.[26] Thus, the dark fibers should have been allocated upon the usage of the investment (both regulated and non-regulated) as part of the Part 64 allocations.

- When verifying the development of the Beneficiary's wideband allocation applicable to Category 1 for CWF assets, the Beneficiary used 2017 loop counts and not current period loop counts for 2018 or the average between 2017 and 2018.

Due to the errors identified above, we performed a recalculation of the Beneficiary's route allocation to address (1) the difference in total fiber pair count, (2) spare fibers categorization, and (3) updated the wideband allocation to use the correct loop count as it affects the interexchange route categorization submitted for HCP purposes. We summarize the variances between the Beneficiary's original submitted amounts for the categorization of interexchange routes and our recalculated categorization, including allocation of spares in the same proportion as in-use fibers, in the table below.

Recalculation of Cable and Wire Facilities			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
12-Month Period Ended December 31, 2018			
Cable and Wire Facilities Investment (Account 2410)	$140,511,676	$139,698,682	$812,994
Cable and Wire Facilities Accumulated Depreciation (Account 3100-2410)	$108,126,690	$107,750,300	$376,390
Cable and Wire Facilities Deferred Taxes (Account 4340-2410)	$3,740,040	$3,718,400	$21,640
Cable and Wire Facilities (Account 6410)	$1,929,724	$1,926,396	$3,328
Depreciation Expense (Account 6560-2410)	$3,428,712	$3,397,995	$30,717

[25] Per the Beneficiary's response is from our inquiry #75 on the Audit Inquiries Listing for the audit.
[26] *See* 47 C.F.R. § 64.901(b) (2018-2019).

Recalculation of Cable and Wire Facilities			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Cable and Wire Facilities (DL700)	$140,511,676	$139,698,682	$812,994
Category 1 Investment for Cable and Wire (DL710)	$115,186,922	$114,520,456	$666,466
12-Month Period Ended March 31, 2019			
Cable and Wire Facilities Investment (Account 2410)	$141,350,332	$140,539,722	$810,610
Cable and Wire Facilities Accumulated Depreciation (Account 3100-2410)	$109,209,708	$108,828,621	$381,087
Cable and Wire Facilities Deferred Taxes (Account 4340-2410)	$3,863,788	$3,841,630	$22,158
Cable and Wire Facilities (Account 6410)	$2,023,571	$2,020,192	$3,379
Depreciation Expense (Account 6560-2410)	$3,904,562	$3,873,178	$31,384
Cable and Wire Facilities (DL700)	$141,350,332	$140,539,722	$810,610
Category 1 Investment for Cable and Wire (DL710)	$113,718,920	$113,066,769	$652,151

Impact to Cable and Wire Facilities Categorization for 2018[27]			
Category	**As Reported Part 36 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (A-B)**
Category 1 – Exch Ln CWF	$112,985,779	$112,319,312	$666,467
Category 2 – Ex Trk x/WB	$3,498	$3,477	$21
Category 2 – WB Line	$1,517,030	$1,508,082	$8,948
Category 2 – WB Trunk	$5,436,648	$5,404,579	$32,069
Category 2 – WB Data Only Loop	$17,782,694	$17,677,800	$104,894
Category 3 – Joint MSG x/WB	$91,101	$90,564	$537
Category 3 – PL & Local x/WB	$3,336	$3,316	$20
Category 4 – Joint (x/WATS)	$6,412	$6,374	$38

[27] Reported balances for CWF Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the balances are reported as an average balance; therefore, the balances reported for Category 1 in the "Recalculation of Cable and Wire Facilities" table and the "Impact to Cable and Wire Facilities Categorization for 2018" table are different.

Impact to Cable and Wire Facilities Categorization for 2018[27]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement (A-B)
Total	**$137,826,498**	**$137,013,504**	**$812,994**

Because the Beneficiary improperly allocated spares resulting in the inclusion of nonregulated amounts in its HCP filing, we conclude that the Beneficiary did not report accurate cable and wire account 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 spares and to exclude nonregulated amounts from the amounts reported for HCP purposes.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated balances in the "Recalculation of Cable and Wire and Facilities" and "Impact to Cable and Wire Facilities Categorization for 2018" tables above, for the periods ending December 31, 2018, and March 31, 2019. We summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$33,848
HCL	$40,090
CAF ICC	$0
Total	**$73,938**

Recommendation
We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We recommend that the Beneficiary maintain asset categorization schedules inclusive of documenting assets by the proper category, in order to demonstrate compliance with FCC rules.

We also recommend that the Beneficiary 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 47 C.F.R. § 64.901(b)(4).

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

(Disagree) The Beneficiary believes that their methodology is consistent with FCC rules. FCC rule 36.153(a)(1)(i)(A) states that there are two methods for assigning the cost of cable to various categories. One of those methods discusses the concept of the number of pairs in use, or reserved, for each category. Therefore, 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 conflict with Part 64.901(b)(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 investment can be reserved and categorized according to assignment records, which supports the assignment of fiber based on intended use. The beneficiary's spare fiber is reserved and intended for regulated telecommunications as there is a significant increase in regulated fiber-based broadband services and non-regulated activities continue to decline. The beneficiary's decision to directly assign these spares to its regulated activity fits squarely within the confines of the Commission's guidance to "directly assign all costs with either a direct or an indirect causal link" to the appropriate regulated or non-regulated activity. The direct assignment takes priority over reverting to any remaining cost causative linkage such as relative use, to assign common costs.

Sikich Response

As stated in the Condition, pursuant to 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.

We acknowledge that it was both prudent and economical for the Beneficiary 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 cable and wire facilities 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 referenced from 47 C.F.R. § 36.153(a)(1)(i)(A) in their response to this finding.

Further, the Beneficiary claims 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, its allocation methodology is appropriate; however, because we noted nonregulated usage of investment within the Beneficiary's cable and wire study, we determined that the Beneficiary should have allocated a portion of its spare fiber as nonregulated. Specifically, the Beneficiary should have compared the percentages of nonregulated and regulated fiber and allocated the spare fibers consistent with the percentages identified. Accordingly, our position regarding this finding has not changed.

Finding No. 6: 47 C.F.R. § 64.901(b)(3)(ii) (2018-2019) and 47 C.F.R. § 32.27 (2018-2019) – Inaccurate Allocation Methodology – Affiliated Transactions[28]

Condition

We obtained and examined the Beneficiary's Service Charge calculations, lease agreements, consolidated balance sheet and income statement, access line count report, and employee listing report to determine whether the Beneficiary's cost study adjustments relating to service charges and shared expenses between affiliates were accurately calculated for HCP purposes for the filing periods ending December 31, 2018, and March 31, 2019. FCC rules state that, *"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."*[29] Further, 47 C.F.R § 32.27 provides the details on how carriers shall record transactions with affiliates involving asset transfers into or out of regulated accounts.[30]

Hargray Communications Group (HCG), the Beneficiary's parent company, allocated management service charges to the Beneficiary and its affiliates based on the following factors: (i) employee count, (ii) plant in service, and (iii) access lines. HCG utilizes plant in service balances with the applicable accumulated depreciation accounts to calculate an annual management service charge. Using the calculated annual service charge, HCG spreads the calculated value to all affiliated entities using the allocation percentages from the factors of (i) employee count, (ii) plant in service, and (iii) access lines. From this, the Beneficiary compares the calculated annual service charge to the estimated amounts recorded on the general ledger of its affiliates.

We inspected HCG's Service Charge workbook and the supporting documentation for factors and account balances used and identified the following errors:

- **Accounts Did Not Reflect 2018 Balances and Rate-of-Return Did Not Reflect 2018 HCL Rate-of-Return:** When inspecting the calculation of the annual service charge from plant in service and the applicable accumulated depreciation accounts, we identified accounts that did not reflect 2018 balances and that the rate of return used did not reflect the rate of return for HCL in 2018. Due to these errors, we updated the accounts to reflect 2018 balances and updated the rate of return applicable for HCL in which a new calculated annual service charge was developed. The calculated annual service charge gets allocated per HCG affiliate utilizing a combined weighted factor from the inputs of (i) employee count, (ii) plant in service, and (iii) access lines, as mentioned above.

[28] This is a repeat finding from the prior audit. See Appendix A for comparison to prior audit results.
[29] *See* 47 C.F.R. § 64.901(b)(3)(ii) (2018-2019).
[30] *See* 47 C.F.R § 32.37 (2018-19).

- **Annual Service Charge Amount Did Not Reflect General Ledger:** We identified the "actual" annual service charge amount used by the Beneficiary on the Service Charge workbook did not reflect what was in their general ledger for the filing periods ending December 31, 2018, and March 31, 2019. Thus, we updated the amounts used to reflect what was shown as total management fees recorded on the Beneficiary's general ledger. Due to this, we calculated a new difference between the calculated annual service charge and the annual service charge from the Beneficiary's general ledger.

- **Outdated Employee Listing:** Within the Service Charge workbook, HCG expenses receive assigned percentages to spread the calculated annual service charge per Part 32 expense accounts. HCG developed the different percentages per Part 32 expense account by incorrectly utilizing HCG's 2016 employee listing and their associated expense account given their functionality to the company (i.e., position title) to develop those percentages. Thus, we recalculated updated percentages per Part 32 expense account by utilizing the 2018 employee listing, which we then utilized to recalculate the service charge spread.

- **Account 6210 for Central Office Switching expense:** Within the Service Charge workbook, the Beneficiary also calculated an allocation of shared expenses between the Beneficiary and an affiliate, Bluffton Telephone Company (BTC). Utilizing the ratio of the Beneficiary and BTC's plant in service, the Beneficiary allocated general ledger balances from expenses accounts. Per verification of expense account balances, a Central Office Switching expense account (account 6210) did not reflect a balance as of December 31, 2018. Thus, the error was corrected to ensure balances are accurate as of the December 31, 2018 filing period.

- **Correction of Errors Identified in 2018 Service Charge Workbook:** For the filing period ending March 31, 2019, we ensured the errors identified on the December 31, 2018, Service Charge workbook, as well as those listed above, had been corrected and were performing recalculations accordingly.

Additionally, the Beneficiary did not have adequate documentation to support the allocation of a building lease between the Beneficiary and HCG, in which the Beneficiary recorded $96,000 of annual rental expense in the General Support Expense (account 6121).

We summarize the differences in Part 64 balances between the original submitted balances and our recalculated affiliate transactions in the table below.

Part 64 Adjustments – Affiliate Transactions			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
12-Month Period Ended December 31, 2018			

Part 64 Adjustments – Affiliate Transactions			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
General Support Expense (Account 6120)	$2,233,418	$6,411,576	($4,178,158)
Central Office Switching Expense (Account 6210)	$967,496	$1,099,125	($131,629)
Network Operation Expense (Account 6530)	$8,091,262	$7,269,738	$821,524
General and Administrative Expense (Account 6720)	$6,893,359	$7,624,531	($731,172)
Marketing Expense (Account 6610)[31]	$1,726,584	$1,670,539	$56,045
Customer Expense (Account 6620)[32]	$414,665	$352,157	$62,508
Operating Other Taxes (Account 7240)[33]	$1,478,633	$1,591,104	($112,471)
12-Month Period Ended March 31, 2019			
General Support Expense (Account 6120)	$2,200,890	$5,852,799	($3,651,909)
Central Office Switching Expense (Account 6210)	$1,044,666	$0	$1,044,666
Network Operation Expense (Account 6530)	$8,456,931	$5,306,484	$3,150,447
General and Administrative Expense (Account 6720)	$7,290,898	$7,676,697	($385,799)

Due to the errors and discrepancies identified above with related party cost study adjustments and related party transactions, we concluded that the Beneficiary's adjustments for affiliate transactions were not properly calculated for the reporting for HCP purposes.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that the Service Charge data inputs such as account balances and annual values are based on updated information and accurate calculations.

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances from the

[31] Account 6610 (Marketing) only applies to the period of January 1, 2018 – December 31, 2018.
[32] Account 6620 (Customer service) only applies to the period of January 1, 2018 – December 31, 2018.
[33] Account 7240 (Operating other tax) only applies to the period of January 1, 2018 – December 31, 2018.

"Part 64 Adjustment – Affiliates Transactions" table above, for the periods ending December 31, 2018, and March 31, 2019. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($903,818)
HCL	$75,279
CAF ICC	$0
Total	**($828,539)**[34]

Recommendation
We recommend that the Beneficiary develop and implement policies, procedures, and processes that describe how the Beneficiary will ensure the recording of transactions to the proper Part 32 account, ensure that allocations are accurately calculated and adequately supported for allocated balances that are submitted for HCP purposes, including the following:

1. Implement a review process that ensures the use of updated data to perform allocation and that the allocations are accurately calculated.
2. Implement policy and review process to ensure that the Beneficiary must allocate indirect cost using a cost causative linkage to another cost category when direct assignment or allocation is not available.
3. Implement a review process to ensure that the Beneficiary utilizes up to date factors to propose adjustment to balances submitted for HCP purposes.
4. Implement policy that the Beneficiary must retain supporting documentation for all allocation calculations applied to balances submitted for HCP purposes.

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
(Agree) The Beneficiary acknowledges that their service charges calculation was not updated entirely with 2018 data and agrees that a revision is necessary to update the calculation with relevant data. Although this finding results in an underpayment of support, typically findings resulting in an underpayment are netted with the findings that have an overpayment when determining the recommended recovery. This may be further clarified once the USAC Management Response chart is completed on page 6 of this report.

Finding No. 7: 47 C.F.R. § 36.121(b)(c)(d) (2018-2019) – Inaccurate Reporting: Central Office Equipment

[34] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

Condition
We obtained and examined the Beneficiary's COE common distribution for the filing periods ending December 31, 2018, and March 31, 2019, to determine whether the separations for COE in categories inclusive of equipment not assigned to a specific category (e.g., common power equipment) were done properly and accurately reported for HCP purposes.

Based on the supporting documentation for the common distribution of the Beneficiary's COE assets, we found the following errors:

- **Incorrect Toll Circuit Count Error:** According to 47 C.F.R. § 36.121(c)(1), the cost of common equipment not assigned to a specific category shall be distributed among the categories in proportion to the cost of equipment and, where appropriate, a weighting factor shall be applied.[35] When categorizing generic COE assets from Part 32 account 2210 (Central Office Switching) equipment, the Beneficiary developed an allocation using toll circuits and EAS circuit counts, named "Toll vs EAS circuits." When verifying the counts used for the "Toll vs EAS circuits" allocation for the December 31, 2018, and March 31, 2019, filing periods, we determined the Beneficiary used an incorrect toll circuit count in its calculation. The count used reflected a 2017 toll circuit count and not the count for the Cost Study for the filing period of December 31, 2018.[36] This impacted the category balances of Category 4.121 and Category 4.23.

- **Expense Adjustment 20 Error:** Utilizing the category balances of 4.12 from the Beneficiary's common distribution support, the Beneficiary created expense adjustment 20 for the transfer of nonregulated activity under the Category 4.122 investment and reserve. We reviewed the provided support documentation and identified an error in the calculation for the filing periods of December 31, 2018, and March 31, 2019. We noted the associated depreciation expense was not included in the adjustment to remove the account 2231 (Nonregulated costs); therefore, we recalculated the entry to include a recording for the depreciation expense that should have been recorded for COE asset in account 2231 ledger balances for the Beneficiary's Central Office Switching investment as of December 31, 2018, and March 31, 2019.

- **Access Lines Count Error:** The Beneficiary made four cost study adjustments (two plant adjustments related to each period and two expense adjustments related to each period) for the removal of the leased portion of switching the investment to BTC. This also included the removal of the associated accumulated depreciation and related expenditures from Part 64 study balances. Although we did not note any errors with the Beneficiary's Pritchardville Office's Category 3 balances or the general ledger balances used, we did identify an error with the count used for the Beneficiary's access lines. The count of 16,927 used for the filing periods of December 31, 2018, and March 31, 2019, did not reflect the current count for the Beneficiary as of December 2018 and as of March 2019. We performed recalculations utilizing the correct access line count of 17,003 for

[35] *See* 47 C.F.R. § 36.121(c)(1)(2018).
[36] The Beneficiary's response is from our inquiry #74 on the Audit Inquiries Listing for the audit.

the filing period of December 31, 2018, and the correct access line count of 16,405 for filing period of March 31, 2019.

- **Cost Study Adjustment Error:** Utilizing the categorization balances from Category 3 and Category 4 from the common distribution documentation for the Beneficiary's Part 32 account 2210 and Part 32 account 2230 for the filing periods of December 31, 2018, and March 31, 2019, support, we identified four cost study adjustments (two plant adjustments related for each period and two expense adjustments related for each period) made to transfer equipment to the correct account. This included the transfer of the associated accumulated depreciation and related expenses. We determined that the adjustment entries for the transfer of equipment considered all other cost study adjustments to COE Part 32 accounts for which we noted errors. Thus, we recalculated the adjustment entries with consideration for the updated adjustment entry values after correcting the identified errors.

Because errors were noted in the Beneficiary's COE common distribution support for the filing periods of December 31, 2018, and March 31, 2019, we updated the total COE asset balance, which included updating the total Category 4.13 balance reported for HCP purpose as summarized in the table below:

Recalculation of Central Office Equipment			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
12-Month Period Ended December 31, 2018			
Central Office Switching (Account 2210)	$15,746,721	$13,777,091	$1,969,630
Central Office Transmission (Account 2230)	$57,806,154	$57,807,111	($957)
Accumulated Depreciation of Central Office Switching (Account 310-2210)	$15,195,450	$13,294,774	$1,900,676
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$44,971,179	$44,971,923	($744)
Deferred Taxes Central Office Switching (Account 4340-2210)	$419,135	$366,709	$52,426
Deferred Taxes Central Office Transmission (Account 4340-2230)	$1,538,643	$1,538,668	($25)
Central Office Switching Expense (Account 6210)	$967,496	$967,649	($153)

Recalculation of Central Office Equipment			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Depreciation Expense Central Office Switching Expense (Account 6560-2210)	$270,199	$270,688	($489)
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,416,151	$4,410,949	$5,202
Category 4.13 of Central Office Equipment (DL 250)	$31,158,854	$30,324,021	$834,833
12-Month Period Ended March 31, 2019			
Central Office Switching (Account 2210)	$16,364,752	$15,709,160	$655,592
Central Office Transmission (Account 2230)	$58,246,569	$58,864,562	($617,993)
Accumulated Depreciation of Central Office Switching (Account 310-2210)	$15,899,197	$15,262,255	$636,942
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$45,532,867	$46,015,969	($483,102)
Deferred Taxes Central Office Switching (Account 4340-2210)	$447,328	$429,407	$17,921
Deferred Taxes Central Office Transmission (Account 4340-2230)	$1,592,160	$1,609,053	($16,893)
Central Office Switching Expense (Account 6210)	$1,044,666	$1,042,648	$2,018
Depreciation Expense Central Office Switching Expense (Account 6560-2210)	$469,682	$458,548	$11,134
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,404,419	$4,409,174	($4,755)
Category 4.13 of Central Office Equipment (DL 250)	$31,284,617	$30,948,324	$336,293

Impact on Central Office Switching Categorization[37]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Part 36 Balances (B)	Variance Over Reported (A-B)
Category 2 – Tandem Switching	$332,812	$291,318	$41,494
Category 3 – Local Switching	$15,465,023	$13,536,887	$1,928,136
Total	**$15,797,835**	**$13,828,205**	**$1,969,630**

Impact on Central Office Transmission Categorization[38]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Part 36 Balances (B)	Variance (Under) Reported (A-B)
Category 4.11 – Wideband-Line	$11,494,474	$11,494,663	($189)
Category 4.12 – Ex Trk x/WB	$54,026	$54,027	($1)
Category 4.13 – Joint MSG	$31,095,058	$31,095,571	(513)
Category 4.13 – PL & Local	$185,319	$185,322	($3)
Category 4.22 – PL	$4,570,381	$4,570,456	($75)
Category 4.22 – WB Direct Assignment	$6,565,978	$6,566,086	($108)
Category 4.23 – Joint MSG	$3,260,641	$3,260,695	($54)
Category 4.23 – PL & Local	$49,569	$49,570	($1)
Category 4.3 – Joint (x/WATS)	$766,458	$766,471	($13)
Total	**$58,041,904**	**$58,042,861**	**($957)**

Because the Beneficiary used incorrect data, we concluded that the Beneficiary's COE categorization was not properly and accurately calculated.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct COE data inputs. For expense adjustment 20, the Beneficiary did not include the related depreciation expense to be removed in the adjustment to remove account 2231. For toll circuit and access line counts, the Beneficiary system did not adequately report the correct count reflective of the filing date (as of December 31, 2018 and as of March 31, 2019). These errors impacted cost study adjustments relating to COE assets which resulted in the incorrect reporting of balances in the Beneficiary study for HCP purposes.

[37] Reported balances for Central Office Switching Categorization for 2020 HCP disbursements are only reported as of December 31, 2018.
[38] Reported balances for Central Office Transmission Categorization for 2020 HCP disbursements are only reported as of December 31, 2018.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances detailed in the "Recalculation of Central Office Equipment," "Impact on Central Office Switching Categorization," and "Central Office Transmission Categorization" tables above for the filing periods of December 31, 2018, and March 31, 2019. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($47,113)
HCL	$30,142
CAF ICC	$0
Total	**($16,971)**[39]

Recommendation
We recommend that the Beneficiary implement an adequate system to assist with the reporting of total central office equipment accurately for the purpose of receiving High Cost support.

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
(Agree) The Beneficiary acknowledges that it incorrectly allocated COE investment and inadvertently miscalculated the corresponding adjustments. Although this finding results in an underpayment of support, typically findings resulting in an underpayment are netted with the findings that have an overpayment when determining the recommended recovery. This may be further clarified once the USAC Management Response chart on page 6 of this report is completed.

Finding No. 8: 47 C.F.R. § 64.901(b)(3)(ii) (2018-2019) and 47 C.F.R. § 54.320(b) (2018-2019) – Inaccurate/Inadequate Allocation Factors[40]

Condition
We obtained and examined the Beneficiary's cost allocation factors and corresponding data inputs for the filing periods of December 31, 2018, and March 31, 2019, to determine whether the allocations have a cost-causative linkage when costs cannot be directly assigned to regulated and nonregulated activities for the reporting of HCP purposes.

[39] The HCP does not pay additional support in the event of a finding resulting in an underpayment.
[40] This is a repeat finding from the prior audit. See Appendix A for comparison to prior audit results.

Pursuant to 47 C.F.R. § 64.901(b)(3)(ii), Beneficiaries must allocate indirect costs using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.[41] Based on our review, the Beneficiary developed three allocations for the purpose of removing costs associated with nonregulated activities: (1) General Allocator, (2) Customer Service, and (3) Marketing. Our examination of the data inputs calculating the three factors' percentages identified the following, which impacted cost study plant adjustment 10, expense adjustment 11, and expense adjustment 26:

- **General Allocator:** The submitted General Allocator factor for the filing periods of December 31, 2018, and March 31, 2019, was 5.39 percent. The 5.39 percent was applied to the Beneficiary's account 2110 (Land and Support investment), along with the applicable accumulated depreciation/depreciation expense and expense accounts to the investment (i.e., account 6530 [Network Operations] and account 6720 [General and Administrative]) and to account 7240 (Operating Other Tax). As such, we reviewed the supporting documentation and determined that the submitted 5.39 percent was developed utilizing account balances from 2017 and not account balances for the filing periods of December 31, 2018, and March 31, 2019. We updated the data inputs to reflect current period values and determined that the General Allocator should have been 5.31 percent and 6.11 percent for the filing periods of December 31, 2018, and March 31, 2019, respectively.

- **Customer Service:** The submitted Customer Service factor was 59.9 percent and 64.4 percent for the filing periods of December 31, 2018, and March 31, 2019, respectively. The Customer Service factor was applied to account 6620 (Customer Service expense). When reviewing the Beneficiary's data inputs for the Customer Service factor, we noted one of the inputs included cost study expense adjustment 26. After inspecting the supporting documentation for expense adjustment 26, we identified two allocation percentages (69.9 percent and 54.59 percent) were applied to the category of "potential product" and "labor," on account 6610 (Marketing) entries. These percentages calculated the removal of the Beneficiary's Marketing accounts in submitted expense adjustment 26, for a total of $2.879 million. The Beneficiary divided the $2.879 million by the total value of Marketing entries ($4.805 million) to get to the 59.9 percent submitted for the filing period of December 31, 2018; however, the Beneficiary's revenue account balances were used to develop the applied percentages of 69.9 percent and 54.59 percent. Because revenue account balances are not considered cost-causative factors; we utilized the Beneficiary's access lines count for the filing periods of December 31, 2018, and March 31, 2019, to arrive at the updated Customer Service factor of 54.0 percent and 54.3 percent for the filing periods of December 31, 2018, and March 31, 2019, respectively.

- **Marketing:** The submitted Marketing factor was 27.7 percent and 30.3 percent for the filing periods of December 31, 2018, and March 31, 2019, respectively. The Marketing factor was applied to the Marketing (account 6610) entries. Per our request for supporting documentation of the Marketing factor, the Beneficiary's cost consultant stated that, in 2016, the National Exchange Carrier Association (NECA):

[41] *See* 47 C.F.R. § 64.901(b)(3)(ii)(2018).

> *…introduced a new rule where marketing expenses could not be over $40 per line. Because of this, marketing expenses needed to be hit by a larger amount than what the general allocator would remove. The factor was calculated so that marketing expenses were to be $39 per line.*[42]

However, the 2016 NECA guidance was not provided to substantiate the allocation developed for the study. Due to the Beneficiary already removing cost from Marketing (account 6610) entries in expense adjustment 26, we did not develop a new factor to replace the 27.7 percent and 30.3 percent; instead, we utilized the updated Customer Service allocation factor as it was applied to Marketing costs per the two categories of "potential product" and "labor" mentioned previously under the Customer Service allocation development. In the submitted study, the Beneficiary erroneously removed Marketing expenses twice by removing costs utilizing the 27.7 percent and 30.3 percent, on top of removing the $2.879 million in expense adjustment 26.

In the table below, we summarized the effect of the errors identified from our review of data inputs used for the development of the Beneficiary's allocation factors for the removal of cost from nonregulated activities.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balance (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
12-Month Period Ended December 31, 2018			
Land and Support Assets (Account 2110)	$25,496,202	$25,522,352	($26,150)
Land and Support Accumulated Depreciation (Account 3100-2110)	$14,747,104	$14,763,291	($16,187)
Land and Support Deferred Tax (Account 4340-2110)	$706,152	$706,876	($724)
Network Support Expense (Account 6110)	$524	$525	($1)
General Support Expense (Account 6120)	$2,233,418	$2,239,071	($5,653)
Network Operation Expense (Account 6530)	$8,091,262	$8,099,594	($8,332)
Land and Support Depreciation Expense (Account 6560-2110)	$901,325	$902,554	($1,229)
General and Administrative Expense (Account 6720)	$6,893,359	$6,899,192	($5,833)
Marketing Expense (Account 6610)[43]	$1,726,584	$3,350,843	($1,624,259)

[42] The Beneficiary's response is from our inquiry #16 on the Audit Inquiries Listing for the audit.
[43] Account 6610 (Marketing) only applies to the period of January 1, 2018 – December 31, 2018.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balance (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Customer Expense (Account 6620)[44]	$414,665	$447,130	($32,465)
Operating Other Tax (Account 7240)[45]	$1,478,633	$1,479,873	($1,240)
12-Month Period Ended March 31, 2019			
Land and Support Assets (Account 2110)	$25,740,992	$25,503,770	$237,222
Land and Support Accumulated Depreciation (Account 3100-2110)	$13,850,903	$13,711,380	$139,523
Land and Support Deferred Tax (Account 4340-2110)	$711,618	$705,060	$6,558
Network Support Expense (Account 6110)	$1,382	$1,372	$10
General Support Expense (Account 6120)	$2,200,890	$2,165,520	$35,370
Network Operation Expense (Account 6530)	$8,456,931	$8,392,370	$64,561
Land and Support Depreciation Expense (Account 6560-2110)	$1,144,219	$1,132,609	$11,610
General and Administrative Expense (Account 6720)	$7,290,898	$7,238,647	$52,251

We determined that the Beneficiary did not properly calculate, record, or base allocation factors for its adjustments on cost causative factors. Therefore, we concluded that the Beneficiary did not accurately report its cost study balances for HCP purposes.

Cause

The Beneficiary did not have a system to monitor data to ensure the information used for the General Allocator to allocate costs between regulated and nonregulated activities were current. The Beneficiary also did not have an adequate understanding of the applicable FCC rules as it utilized revenues, a non-causative factor, for the development of the Beneficiary's Customer Service factor. Lastly, the Beneficiary did not have adequate data retention procedures to ensure the proper retention of records, as it relates to NECA guidance, to demonstrate its development of the Marketing factor and support the balances reported for HCP purposes.

[44] Account 6620 (Customer service) only applies to the period of January 1, 2018 – December 31, 2018.

[45] Account 7240 (Operating other tax) only applies to the period of January 1, 2018 – December 31, 2018.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances, noted in the "Recalculation of Part 64 Balances" table above, for the filing periods of December 31, 2018, and March 31, 2019. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($321,829)
HCL	$26,476
CAF ICC	$0
Total	**($295,353)**[46]

Recommendation
We recommend that the Beneficiary ensure it has an adequate system to report accurate data for HCP purposes and to maintain documentation to demonstrate compliance with FCC Rules.

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
(Agree) The Beneficiary acknowledges that the non-regulated allocator needed to be updated to reflect 2018 data. The Beneficiary has reviewed its part 64 process and will make any necessary updates for future filings. Although this finding results in an underpayment of support, typically findings resulting in an underpayment are netted with the findings that have an overpayment when determining the recommended recovery. This may be further clarified once the USAC Management Response chart on page 6 of this report is completed.

Finding No. 9: 47 C.F.R. § 54.320(b) (2018-2019) and 47 C.F.R. § 64.901(b) (2018-2019) – Inadequate/Inaccurate Documentation: Assets

Condition
We obtained and examined the Beneficiary's general ledger, CPRs, and cost study balances to determine whether the Beneficiary reported accurate asset balances—including a non-statistical sample of 19 assets transactions totaling $16,454,430—for HCP purposes based on high dollar value and proportional to the investment impact on HCP support.

In addition to examining the supporting documentation of the selected asset sample to determine if the Beneficiary can substantiate the value, we also validated at least 50 percent of the total

[46] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

Work Order value applicable to the asset sample. By doing so, we identified the following four exceptions in five asset samples:

1. **Unsupported Payroll Entries:** The Beneficiary was unable to provide supporting documentation for payroll-related entries recorded to the Work Orders for 2 of the 19 samples. The details of the exceptions are as follows:

Sample #	Account	Total Work Order Value of Sample	Unsupported Amount
17	2423	$13,425	$1,782
18	2423	$36,563	$283

2. **Uncorrected Clearing Entry:** For one of the 19 samples, the Beneficiary could not support a clearing entry booked to the project in the amount of $3,062; however, per review of the supporting documentation provided by the Beneficiary, we were made aware that the clearing entry should have been $3,206, which was also recorded to the project, subsequently. After performing an inspection to determine whether the incorrect entry of $3,062 received proper adjustment (removing value from the project), we did not identify a removal of the recording error of $3,062. The detail of the exception is as follows:

Sample #	Account	Total Work Order Value of Sample	Uncorrected Error
16	2423	$122,896	$3,062

3. **Unsupported COE Items:** For one of the 19 samples, we identified the two parts (*Part SFPP-10GE-SR and Part MPC3E-3D-NG*) to have differences in quantity when reconciling from the quantity of the invoice to the Beneficiary's *CPR for Central Office Equipment (COE):* The details of the exception are as follows:

Account	Part #	Qty on Invoice	Unit Cost on Invoice and CPR	Qty on CPR	Unsupported Amount
2232	SFPP-10GE-SR	110	$210	20	$18,900
2232	MPC3E-3D-NG	25	$14,000	23	$28,000

4. **Uncorrected Journal Entry:** For one of 19 samples, the transaction was originally selected as an expense transaction for Part 32 Engineering expense (account 6535). However, the transaction was subsequently reclassified to Part 32 Plant Under Construction (account 2003) by the Beneficiary and treated as an asset sample. When reviewing supporting documentation for the purchase of vehicles including the reclassified journal entry, we identified the following errors in the batch of transactions relating to the sample:

a. The expense reduction for the reclassified entry of expense to asset was recorded to HCG's general ledger and not the Beneficiary's general ledger. The Beneficiary increased Part 32 Plant Under Construction (account 2003) for $74,000 and reduced Part 32 General Support (account 61250) for HCG. Vehicle assets are considered Land and Support assets, which should be capitalized to Part 32 Account 2110. Therefore, we proposed an audit entry to reclassify the costs from Account 2003 to 2110.

b. Another expense reduction was part of the batch of journal entries recording $32,000 to Part 32 Engineering expense (account 6535) for the Beneficiary. The debited entry of the $32,000 was recorded to Part 32 Plant under construction (account 2003); however, the record entry was for BTC, the Beneficiary's affiliate. Per the Beneficiary, both sides of the journal entry should have been entered in BTC's general ledger.

Because of the errors identified in (a) and (b) above in the batch of transactions sampled, we summarized the adjustments needed to correct the journal entry, as follows:

Adjustments Needed to Correct Entries			
HTC Adjustment	**Amount**	**Part 32**	**Description**
61250-01-65350	($41,755)	6530	Net of vehicle amount not removed by HTC and erroneous JE ($32,333–74,088)
2110-01-0000	$74,088	2110	Reclassify Auto to proper account
20032-01-0000	($74,088)	2003	Reclassify Auto to proper account

We summarized the effect of these asset sample exceptions below:[47]

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balance (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
12-Month Period Ended December 31, 2018			
Materials and Supplies (Account 1220)	$579,570	$626,470	($46,900)
Telecommunications plant under construction-short term (Account 2003)[48]	$6,523,319	$6,449,231	$74,088
Land and Support Assets (Account 2110)	$25,496,202	$25,570,290	($74,088)
Central Office Transmission (Account 2230)	$57,806,154	$57,759,254	$46,900

[47] This is a repeat finding from the prior audit. Please see Appendix A for comparison to prior audit results.
[48] Account 2003 (Plant Under Construction) only applies to the period of January 1, 2018 – December 31, 2018.

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balance (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Cable and Wire Facilities Investment (Account 2410)	$140,511,676	$140,506,548	$5,128
Land and Support Accumulated Depreciation (Account 3100-2110)	$14,747,104	$14,753,278	($6,174)
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$44,971,179	$44,934,692	$36,487
Cable and Wire Facilities Accumulated Depreciation (Account 3100-2410)	$108,126,690	$108,122,744	$3,946
Land and Support Deferred Tax (Account 4340-2110)	$706,152	$708,184	($2,032)
Deferred Taxes Central Office Transmission (Account 4340-2230)	$1,538,643	$1,537,395	$1,248
Cable and Wire Facilities Deferred Taxes (Account 4340-2410)	$3,740,040	$3,739,904	$136
Central Office Transmission Expense (Account 6230)	$801,994	$801,343	$651
Cable and Wire Facilities (Account 6410)	$1,929,724	$1,929,654	$70
Network Operations Expense (Account 6530)	$8,091,262	$8,049,507	$41,755
Land and Support Depreciation Expense (Account 6560-2110)	$901,325	$907,499	($6,174)
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,416,151	$4,412,568	$3,583
Depreciation Expense (Account 6560-2410)	$3,428,712	$3,428,587	$125
Cable and Wire Facilities (DL700)	$140,511,676	$140,506,548	$5,128
Category 1 Investment for Cable and Wire (DL710)	$115,186,922	$115,182,718	$4,204
12-Month Period Ended March 31, 2019			
Materials and Supplies (Account 1220)	$893,817	$940,717	($46,900)
Land and Support Assets (Account 2110)	$25,740,992	$25,815,080	($74,088)
Central Office Transmission (Account 2230)	$58,246,569	$58,199,669	$46,900

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balance (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
Cable and Wire Facilities Investment (Account 2410)	$141,350,332	$141,345,204	$5,128
Land and Support Accumulated Depreciation (Account 3100-2110)	$13,850,903	$13,852,755	($1,852)
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$45,532,867	$45,496,204	$36,663
Cable and Wire Facilities Accumulated Depreciation (Account 3100-2410)	$109,209,708	$109,205,746	$3,962
Land and Support Deferred Tax (Account 4340-2110)	$711,618	$713,666	($2,048)
Deferred Taxes Central Office Transmission (Account 4340-2230)	$1,592,160	$1,590,878	$1,282
Cable and Wire Facilities Deferred Taxes (Account 4340-2410)	$3,863,788	$3,863,648	$140
Central Office Transmission Expense (Account 6230)	$825,113	$824,449	$664
Cable and Wire Facilities (Account 6410)	$2,023,571	$2,023,498	$73
Network Operation Expense (Account 6530)	$8,456,931	$8,415,176	$41,755
Land and Support Depreciation Expense (Account 6560-2110)	$1,144,219	$1,146,071	($1,852)
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,404,419	$4,400,873	$3,546
Depreciation Expense Cable and Wire Facilities (Account 6560-2410)	$3,904,562	$3,904,420	$142
Cable and Wire Facilities (DL700)	$141,350,332	$141,345,204	$5,128
Category 1 Investment for Cable and Wire (DL710)	$113,718,920	$113,714,794	$4,126

Impact on Central Office Transmission Categorization[49]			
Category	**As Reported Part 36 Balances (A)**	**Sikich Audited Part 36 Balances (B)**	**Variance Over/(Under) Reported (A-B)**
Category 4.11 – Wideband-Line	$11,494,474	$11,485,186	$9,288
Category 4.12 – Ex Trk x/WB	$54,026	$53,982	$44
Category 4.13 – Joint MSG	$31,095,058	$31,069,932	$25,126
Category 4.13 – PL & Local	$185,319	$185,169	$150
Category 4.22 – PL	$4,570,381	$4,566,688	$3,693
Category 4.22 – WB Direct Assignment	$6,565,978	$6,560,672	$5,306
Category 4.23 – Joint MSG	$3,260,641	$3,258,006	$2,635
Category 4.23 – PL & Local	$49,569	$49,530	$39
Category 4.3 – Joint (x/WATS)	$766,458	$765,839	$619
Total	**$58,041,904**	**$57,995,004**	**$46,900**

Impact to Cable and Wire Facilities Categorization for 2018[50]			
Category	**As Reported Part 36 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement (Understatement)/ (A-B)**
Category 1 – Exch Ln CWF	$112,985,779	$112,981,575	$4,204
Category 2 – WB Line	$1,517,030	$1,516,974	$56
Category 2 – WB Trunk	$5,436,648	$5,436,446	$202
Category 2 – WB Data Only Loop	$17,782,694	$17,782,031	$663
Category 3 – Joint MSG x/WB	$91,101	$91,098	$3
Total	**$137,813,252**	**$137,808,124**	**$5,128**

Cause

The Beneficiary did not have adequate data retention procedures to ensure the proper retention of records to demonstrate its assets were recorded in the proper amount and to the proper general

[49] Reported balances for Central Office Transmission Categorization for 2020 HCP disbursements are only reported as of December 31,2018. Additionally, the balances are reported as an average balance, thus the balances reported Central Office Transmission for Table "Recalculation of Part 64 Balances" and Table "Impact on Central Office Transmission Categorization" are different.

[50] Reported balances for CWF Categorization for 2020 HCP disbursements were only reported as of December 31, 2018. Additionally, the balances are reported as an average balance, thus the difference in the balances reported for Category 1 in the "Recalculation of Part 64 Balances" and "Impact to Cable and Wire Facilities Categorization for 2018" tables.

ledger account and did not have an adequate system in place for reporting and monitoring data to report the correct asset valuation for HCP purposes.

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances and add the understated account balances in the "Recalculation of Part 64 Balances," "Impact of Central Office Transmission Categorization," and "Impact of Cable and Wire Facilities Categorization for 2018" tables above, for the filing periods of December 31, 2018, and March 31, 2019. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$9,636
HCL	$12,858
CAF ICC	$0
Total	**$22,494**

Recommendation

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary (1) retain supporting source documentation of transactions made to the Beneficiary's work orders, (2) retain adequate records to demonstrate transactions recorded in the Beneficiary's work order are in the proper amount, and (3) maintain documentation to demonstrate compliance with FCC Rules. Additionally, we recommend that the Beneficiary develop and implement policies, procedures, and processes to ensure recording of journal entries to the correct general ledger of the related party, whether that is the Beneficiary or its affiliate to demonstrate the recording of assets in the proper general ledger account and under the proper entity.

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

(Agree) The Beneficiary acknowledges the lack of documentation related to the selected samples. The Beneficiary will review its documentation procedures to make sure that documentation is maintained going forward. In addition, the Beneficiary will update its methodology on how engineers and plant employees handle WO's.

Finding No. 10: 47 C.F.R. § 32.2(a)(b) (2018-2019) – Misclassification of Part 32 Accounts: Expenses[51]

Condition

We obtained and examined the Beneficiary's general ledger and cost study balances, including a non-statistical sample of eight expense transactions totaling $497,996, a non-statistical sample of 11 travel transactions for the filing period ending December 31, 2018 totaling $16,727, and a non-statistical sample of nine travel transactions for filing period ending March 31, 2019 totaling $13,357 to determine whether the Beneficiary recorded transactions to the proper Part 32 accounts for High Cost purposes. The Beneficiary misclassified two expenses under a Part 32 expense account instead of capitalizing the two expenses as assets. Additionally, one travel expense was misclassified under the incorrect Part 32 expense account.

- **Account 6410 for CWF Expense and Account 2230 for COE Transmission:** The Beneficiary incorrectly recorded one of eight expense samples totaling $8,346 related to COE Transmission equipment to Account 6410 (CWF Expense). This expense for the purchase of a Gigabit Passive Optical Network (GPON) Terminal American Standard Adapter should have been capitalized and recorded to Account 2230 (COE Transmission) and the related COE Transmission accumulated depreciation and depreciation expense accounts.

- **Account 6410 for CWF Expense and Account 2110 for Land and Support Assets:** The Beneficiary incorrectly recorded one of eight expense samples totaling $10,140 related the purchase of computers to Account 6410 (CWF Expense). This expense for the purchase of Dell 24 inch monitors should have been capitalized and recorded to Account 2110 (Land and Support Assets) and the related Land and Support Assets accumulated depreciation and depreciation expense accounts..

- **Account 6210 for COE Switching Expense and Account 6230 for COE Transmission Expense:** The Beneficiary incorrectly recorded one of 11 travel sample transactions for the filing period of December 31, 2018, totaling $488. The miscoding occurred due to misidentifying an employee with the same last name as another employee and misidentification of the Part 32 account in which to code expense per the employee listing. The Beneficiary verified that the employee associated with the cost should have payroll cost booked to Account 6230, thus the expense should have been recorded to Account 6230 (COE Transmission Expense) instead of Account 6210 (COE Switching Expense).

We summarize the effect of the misclassification of the two expenses that should have not been submitted in Account 6410 (CWF expense) but capitalized to the corresponding Asset Account 2230 (COE Transmission) and Account 2110 (Land and Support); and for the one travel expense that should have been classified to Account 6230 (COE Transmission Expense) instead of 6210 (COE Switching Expense) in the tables below:

[51] This is a repeat finding from the prior audit. See Appendix A for comparison to prior audit results.

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
12-Month Period Ended December 31, 2018			
Land and Support Assets (Account 2110)	$25,496,202	$25,506,342	($10,140)
Central Office Transmission (Account 2230)	$57,806,154	$57,814,500	($8,346)
Land and Support Accumulated Depreciation (Account 3100-2110)	$14,747,104	$ 14,747,273	($169)
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$44,971,179	$44,971,504	($325)
Land and Support Deferred Tax (Account 4340-2110)	$706,152	$706,433	($281)
Deferred Taxes Central Office Transmission (Account 4340-2230)	$1,538,643	$1,538,865	($222)
Central Office Switching Expense (Account 6210)	$967,496	$967,008	$488
Central Office Transmission Expense (Account 6230)	$801,994	$802,482	($488)
Cable and Wire Facilities (Account 6410)	$1,929,724	$1,911,238	$18,486
Land and Support Depreciation Expense (Account 6560-2110)	$901,325	$901,494	($169)
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,416,151	$4,416,476	($325)
12-Month Period Ended March 31, 2019			
Land and Support Assets (Account 2110)	$25,740,992	$25,751,132	($10,140)
Central Office Transmission (Account 2230)	$58,246,569	$58,254,915	($8,346)
Land and Support Accumulated Depreciation (Account 3100-2110)	$13,850,903	$13,851,241	($338)
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$45,532,867	$45,533,331	($464)

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Land and Support Deferred Tax (Account 4340-2110)	$711,618	$711,898	($280)
Deferred Taxes Central Office Transmission (Account 4340-2230)	$1,592,160	$1,592,388	($228)
Central Office Switching Expense (Account 6210)	$1,044,666	$1,044,178	$488
Central Office Transmission Expense (Account 6230)	$825,113	$825,601	($488)
Cable and Wire Facilities (Account 6410)	$2,023,571	$2,005,085	$18,486
Land and Support Depreciation Expense (Account 6560-2110)	$1,144,219	$1,144,557	($338)
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,404,419	$4,404,883	($464)

Impact on Central Office Transmission Categorization[52]			
Category	As Reported Part 36 Balances (A)	Sikich Audited Part 36 Balances (B)	Variance Over/(Under) Reported (A-B)
Category 4.11 – Wideband-Line	$11,494,474	$11,496,127	($1,653)
Category 4.12 – Ex Trk x/WB	$54,026	$54,034	($8)
Category 4.13 – Joint MSG	$31,095,058	$31,099,529	($4,471)
Category 4.13 – PL & Local	$185,319	$185,346	($27)
Category 4.22 – PL	$4,570,381	$4,571,038	($657)
Category 4.22 – WB Direct Assignment	$6,565,978	$6,566,922	($944)
Category 4.23 – Joint MSG	$3,260,641	$3,261,110	($469)
Category 4.23 – PL & Local	$49,569	$49,576	($7)
Category 4.3 – Joint (x/WATS)	$766,458	$766,568	($110)
Total	**$58,041,904**	**$58,050,250**	**($8,346)**

[52] Reported balances for COE Categorization for 2020 HCP disbursements were only reported as of December 31, 2018.

Because the Beneficiary did not record the expense and travel transactions to the proper Part 32 accounts, we concluded the cost study balances reported for HCP purposes were inaccurate.

Cause
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly record assets and expenses to the proper general ledger account for HCP purposes.

Effect
We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated and add the understated account balances in the "Recalculation of Part 64 Balances" and "Impact of Central Office Transmission Categorization" tables above, for the filing periods of December 31, 2018, and March 31, 2019. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$5,621
HCL	$8,423
CAF ICC	$0
Total	**$14,044**

Recommendation
We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implement policies and procedures to ensure it classifies its expense transactions to the proper Part 32 accounts, in order to demonstrate compliance with FCC Rules.

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
(Agree) The Beneficiary acknowledges that it inadvertently misclassified the noted expenses. The Beneficiary has already begun additional internal Part 32 training to prevent any future expense misclassifications.

Finding No. 11: 47 C.F.R. § 51.917(e)(1), (2) (2017-2019) and 47 C.F.R. § 51.917(f)(2) (2017-2019)– Inaccurate Reporting of Revenue for Access Recovery Charges[53]

[53] This is a repeat finding from the prior audit. Please see Appendix A for comparison to prior audit results.

Condition
We obtained and examined the Beneficiary's billing reports, NECA's EC2060-L Report, and Tariff Review Plan data for Program Years 2017 and 2018 to determine whether the Beneficiary reported the accurate maximum ARC Revenues for HCP purposes.

Our verification of the Beneficiary's Tariff Review Plan for ARC Revenues showed two categories of exchanges. On the ARC True-Up calculation of the Tariff Review Plan—specifically for Residential lines—the Beneficiary reported: (i) all exchanges and (ii) all exchanges – limited local. Per the Beneficiary: (i) all exchanges include the Beneficiary's existing customers,[54] which exceeds the $30.00 rate ceiling applicable to Residential customers; the (ii) all exchanges – limited local includes the Beneficiary's customers that fall below the $30.00 rate ceiling.

To determine the quantity of residential customers that fall in (i) all exchanges versus (ii) all exchanges – limited local, the Beneficiary ran a report that produced an 80/20 residential customer ratio. Approximately 80 percent of lines were determined to be for the (i) all exchanges; thus, no residential ARC rate would apply. Approximately 20 percent of lines were determined to be for the (ii) all exchanges – limited local, where a residential ARC rate would apply.

Considering this information, we verified imputed ARC Revenue for the Beneficiary were as follows:

- For both Program Years 2017 and 2018, we used the EC2060-L Report for Residential ARC line counts. We reduced the ARC line count by the count of Lifeline subscribers and applied the 20 percent identified as the (ii) all exchange – limited local residential customers that fall below the $30.00 rate ceiling. We then applied the maximum Residential ARC rate for Program Year 2017; as per rate ceiling verification, the total local rate for the exchange fell below $30.00, and the difference exceeded the maximum rate of $3.00. For Program Year 2018, the ARC rate applied per rate ceiling verification agreed to the Tariff 5 rate.

- For Business customers, we used the line counts from the Beneficiary's billing reports and applied the corresponding Tariff 5 rate to arrive to the revenue for both Single-Line and Multi-Line Business ARC revenues.

Based on our verification as listed above, we identified the following differences between the Beneficiary's imputed ARC Revenues[55] and the Beneficiary's reported ARC Revenues for both Program Years 2017 and 2018. A summary of the differences are identified below.

[54] Existing customers maintained their current rate while new customers were charged a new updated rate.
[55] *See* 47 C.F.R. § 51.917(f)(2) (2017-2019)

Revenue[56]	Program Year: July 2017 – June 2018	Program Year: July 2018 – June 2019
ARC Revenue Reported	$425,736	$330,968
Sikich Imputed ARC Revenue	$417,474	$363,988
ARC Revenue Difference	**$8,262**	**($33,020)**

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct imputed ARC revenue for HCP purposes. The Beneficiary acknowledges that human error during a billing system transition contributed to the variance in reported revenue.[57]

Effect

We calculated the monetary impact to the Beneficiary's HCP filing by adjusting the CAF ICC algorithm to subtract the $8,262 of over-reported revenue and add the $33,020 under-reported revenue from and to the ARC Revenue reported for the Program Years 2018 and 2019, respectively. We summarized the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$0
HCL	$0
CAF ICC	$12,379[58]
Total	**$12,379**

Recommendation

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implement an adequate reporting system to substantiate data reported to ensure accurate reporting of the ARC revenues reported for HCP purposes. Additionally, we recommend that the Beneficiary refile any High Cost filings in which the Beneficiary used similar methods to calculate ARC revenues.

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/.

[56] ARC Revenues include Residential, Single-Line Business, and Multi-Line Business. Lifeline Customer lines are excluded.

[57] Per the Beneficiary's response to the Exception Summary received September 28, 2023.

[58] The monetary effect listed only represents disbursements during Calendar Year 2020. We noted at least $12,379 in improper disbursements made in the immediately prior and subsequent periods. Additional amounts may have been overstated in prior periods due to the same error.

Beneficiary Response
(Agree) The Beneficiary acknowledges that it inadvertently reported inaccurate ARC revenue largely due to a billing system conversion during the period under review. Since the error pertained to a billing system transition, the Beneficiary has not found a similar issue with subsequent filings.

Finding No. 12: 47 C.F.R. § 32.2000(g)(2) (2018-2019) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation[59]

Condition
We obtained and examined the Beneficiary's depreciation schedule, as well as the Beneficiary's regulated property, plant, and equipment beginning and ending balances by asset account group; accumulated depreciation balances by asset account group; and depreciation expense amounts by asset account group for the filing periods of December 31, 2018, and March 31, 2019, in order to determine whether the Beneficiary properly computed and reported depreciation expense for HCP purposes.

Upon examination of the Beneficiary's depreciation schedule and reviewing the Beneficiary's response to our Background Questionnaire on the Beneficiary's process for the calculation of depreciation expense, we made the following observations:

- Per our review of the December 2018 general ledger activity, we determined that the Beneficiary made an adjustment to the accumulated depreciation account for their Building Asset account (account 3100-21210) for the sale of a building; however, the Beneficiary made no adjustment to the corresponding Building Asset account (account 21210). Upon further review of the general ledger activity, we determined that the entry was reversed in January 2019.

- Per inquiry with the State of South Carolina (State) Public Utility Commission, the State does not regulate depreciation rates for its Telecommunication Carriers. As such, we analyzed the depreciation rates provided by the Beneficiary to consider the reasonableness in useful lives (in years) per asset. For three accounts, we determined that the depreciation rates appear to be outside the useful life set by industry standards, as outlined below:[60]

    - Furniture/Artwork (account 21220) contained a useful life of 200 years versus the industry standard of 15–20 years.

    - General Purpose Computers (account 21240) contained a useful life of 15 years versus a standard of 6–8 years.

[59] This is a repeat finding from the prior audit. Please see Appendix A for comparison to prior audit results.
[60] https://transition.fcc.gov/wcb/ppd/depreciation/documents/currDepRanges.pdf

- Buried Cable – Metallic (account 24230) contained a useful life of 50 years versus a standard of 25–30 years.

- The Beneficiary did not calculate its depreciation expense by utilizing the methodology of taking the average of the beginning and ending monthly asset balances and multiplying by the depreciation rate; instead, the Beneficiary utilized the monthly beginning asset balance for each month of the filing periods of December 31, 2018, and March 31, 2019.

Due to the Beneficiary not utilizing the average of beginning and ending balance of each month, we performed an independent recalculation of depreciation expense for the filing period of December 31, 2018, and March 31, 2019, which made the following impact to Part 64 balances:

Recalculation of Part 64 Balances			
Account	**As Reported Part 64 Balances (A)**	**Sikich Audited Balances (B)**	**Variance Overstatement/ (Understatement) (A-B)**
12-Month Period Ended December 31, 2018			
Land and Support Accumulated Depreciation (Account 3100-2110)	$14,747,104	$13,544,621	$1,202,483
Accumulated Depreciation of Central Office Switching (Account 3100-2210)	$15,195,450	$15,195,185	$265
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$44,971,179	$44,956,027	$15,152
Accumulated Depreciation of Cable and Wire Facilities (Account 3100-2410)	$108,126,690	$108,119,459	$7,231
Land and Support Depreciation Expense (Account 6560-2110)	$901,325	$886,071	$15,254
Depreciation Expense Central Office Switching Expense (Account 6560-2210)	$270,199	$269,934	$265
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,416,151	$4,400,999	$15,152
Depreciation Expense of Cable and Wire Facilities (Account 6560-2410)	$3,428,712	$3,421,481	$7,231
12-Month Period Ended March 31, 2019			
Land and Support Accumulated Depreciation (Account 3100-2110)	$13,850,903	$13,834,801	$16,102

Recalculation of Part 64 Balances			
Account	As Reported Part 64 Balances (A)	Sikich Audited Balances (B)	Variance Overstatement/ (Understatement) (A-B)
Accumulated Depreciation of Central Office Switching (Account 3100-2210)	$15,899,197	$15,898,943	$254
Accumulated Depreciation of Central Office Transmission (Account 3100-2230)	$45,532,867	$45,511,554	$21,313
Accumulated Depreciation of Cable and Wire Facilities (Account 3100-2410)	$109,209,708	$109,200,857	$8,851
Land and Support Depreciation Expense (Account 6560-2110)	$1,144,219	$1,128,154	$16,065
Depreciation Expense Central Office Switching Expense (Account 6560-2210)	$469,682	$469,428	$254
Depreciation Expense Central Office Transmission Expense (Account 6560-2230)	$4,404,419	$4,383,091	$21,328
Depreciation Expense of Cable and Wire Facilities (Account 6560-2410)	$3,904,562	$3,895,702	$8,860

Because the Beneficiary did not make an adjustment to the corresponding Building asset account in December 2018, depreciation rates appear to be outside the useful life set by industry standards, and did not utilize the average monthly asset balance methodology, we concluded that the Beneficiary did not properly calculate depreciation expense and accumulated depreciation.

Cause

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate depreciation expense and accumulated depreciation. The Beneficiary acknowledges that utilizing the incorrect depreciation method of calculating depreciation using the beginning balance only—instead of the required method of using the average of the beginning and ending monthly asset balance—attributed to the incorrect reporting of depreciation expense.[61]

Effect

We calculated the monetary effect to the Beneficiary's HCP filing by adjusting the CAF BLS and HCL algorithms to subtract the overstated account balances identified in the "Recalculation of Part 64 Balances" table above for the filing periods of December 31, 2018, and March 31,

[61] Per the Beneficiary response to the Exception Summary received September 28, 2023.

2019. We summarize the impact of this finding relative to disbursements made from HCP for the 12-month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($34,628)
HCL	$7,875
CAF ICC	$0
Total	**($26,753)**[62]

Recommendation
We recommend that the Beneficiary implement an adequate system to properly calculate depreciation expense and accumulated depreciation by utilizing the average of the monthly beginning and ending asset balances in order to properly report for HCP purposes. Additionally, we recommend that the Beneficiary refile any High Cost filings in which the Beneficiary used similar depreciation methods, reporting the depreciation expense and related accumulate depreciation calculated using average balances.

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
(Agree) The Beneficiary acknowledges that it miscalculated depreciation during the period under review. At the time the Beneficiary was calculating depreciation expense based on beginning balance rather than average monthly balance. The Beneficiary has updated its methodology and procedures for calculating depreciation expense based on monthly average balance. Although this finding results in an underpayment of support, typically findings resulting in an underpayment are netted with the findings that have an overpayment when determining the recommended recovery. This may be further clarified once the USAC Management Response chart on page 6 of this report is completed.

[62] The HCP does not pay additional support in the event of a finding resulting in an underpayment.

Criteria

Finding	Criteria	Description
1, 5, 9	47 C.F.R. § 64.901 (2018–2019)	*§ 64.901 Allocation of costs.* *(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.*

Finding	Criteria	Description
		(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. *(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.* *(c) A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.*
2	47 C.F.R. § 51.917(d) (2017–2019)	*(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.* *(i) Beginning July 1, 2012, 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:*

Finding	Criteria	Description
		(A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and* *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012 using the target methodology required by § 51.705.* *(ii) Beginning July 1, 2013, 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, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909;* *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and* *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013 using the target methodology required by § 51.705.* *(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:*

Finding	Criteria	Description
		(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; *(B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and* *(C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014 using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for Reciprocal Compensation for the year beginning July 1, 2012.* *(D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012 multiplied by negative one.* *(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.*

Finding	Criteria	Description
		(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*

Finding	Criteria	Description
		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. §54.902 (2018)	*§ 54.902 Calculation of CAF BLS Support for transferred exchanges.* *(a) In the event that a rate-of-return carrier acquires exchanges from an entity that is also a rate-of-return carrier, CAF BLS for the transferred exchanges shall be distributed as follows:* *(1) Each carrier may report its updated line counts to reflect the transfer in the next quarterly line count filing pursuant to § 54.903(a)(1) that applies to the period in which the transfer occurred. During a transition period from the filing of the updated line counts until the end of the funding year, the Administrator shall adjust the CAF BLS Support received by each carrier based on the updated line counts and the per-line CAF BLS, categorized by customer class and, if applicable, disaggregation zone, of the selling carrier. If the acquiring carrier does not file a quarterly update of its line counts, it will not receive CAF BLS for those lines during the transition period.* *(2) Each carrier's projected data for the following funding year filed pursuant to § 54.903(a)(3) shall reflect the transfer of exchanges.* *(3) Each carrier's actual data filed pursuant to § 54.903(a)(4) shall reflect the transfer of exchanges. All post-transaction CAF BLS shall be subject to true up by the Administrator pursuant to § 54.903(b)(3).*

Finding	Criteria	Description
		(b) In the event that a rate-of-return carrier acquires exchanges from a price-cap carrier, absent further action by the Commission, the exchanges shall receive the same amount of support and be subject to the same public interest obligations as specified in § 54.310 or § 54.312, as applicable. *(c) In the event that an entity other than a rate-of-return carrier acquires exchanges from a rate-of-return carrier, absent further action by the Commission, the carrier will receive model-based support and be subject to public interest obligations as specified in § 54.310.* *(d) This section does not alter any Commission rule governing the sale or transfer of exchanges, including the definition of "study area" in part 36 of this chapter.*
3, 8, 9	47 C.F.R. § 54.320(b) (2018–2019)	*(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.*
4	47 C.F.R. § 32.6112(b) (2018–2019)	*(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.*
4	47 C.F.R. § 32.6512(b) (2018–2019)	*(b) Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge.*
4	47 C.F.R. § 32.6534(b) (2018–2019)	*(b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See § 32.2000(c)(2)(ii) of subpart C.)*

Finding	Criteria	Description
4	47 C.F.R. § 32.6535(b) (2018–2019)	*(b) Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours. (See § 32.2000(c)(2)(ii) of subpart C.)*
6, 8	47 C.F.R. § 64.901(b)(3)(ii) (2018–2019)	*(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.*
6	47 C.F.R. § 32.27 (2018–2019)	*§ 32.27 Transactions with affiliates.* *(a) Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.* *(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost.* *(1) Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.*

Finding	Criteria	Description
		(2) Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. *(3) Threshold. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost.* *(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the*

Finding	Criteria	Description
		higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost. *(1) Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.* *(2) Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.* *(3) Threshold. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.*

Finding	Criteria	Description
		(d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied. *(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.* *(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.*
7	47 C.F.R. § 36.121 (b)(c)(d) (2018–2019)	*(b) Records of the cost of central office equipment are usually maintained for each study area separately by accounts. However, each account frequently includes equipment having more than one use. Also, equipment in one account frequently is associated closely with equipment in the same*

Finding	Criteria	Description
		building in another account. Therefore, the separations procedures for central office equipment have been designed to deal with categories of plant rather than with equipment in an account. (c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records. (1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories. (i) The cost of power equipment used by one category is assigned directly to that category, e.g., 130-volt power supply provided for circuit equipment. The cost of emergency power equipment protecting only power equipment used by one category is also assigned directly to that category. (ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment. (d) The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment.
10	47 C.F.R. § 32.2(a)(b) (2018-2019)	*(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the*

Finding	Criteria	Description
		natural groupings, over long periods of time, lends an element of stability to the financial account structure. *(b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.*
11	47 C.F.R. §51.917(e)(1)(2) (2017–2019)	*Access Recovery Charge.* *(1) A charge that is expressed in dollars and cents per line per month may be assessed upon end users that may be assessed a subscriber line charge pursuant to § 69.104 of this chapter, to the extent necessary to allow the Rate-of-Return Carrier to recover some or all of its Eligible Recovery determined pursuant to paragraph (d) of this section, subject to the caps described in paragraph (e)(6) of this section. A Rate-of-Return Carrier may elect to forgo charging some or all of the Access Recovery Charge.* *(2) Total Access Recovery Charges calculated by multiplying the tariffed Access Recovery Charge by the projected demand for the year may not recover more than the amount of eligible recovery calculated pursuant to paragraph (d) of this section for the year beginning on July 1.*
11	47 C.F.R. § 51.917(f)(2) (2017–2019)	*(2) Beginning July 1, 2012, a Rate-of-Return Carrier may recover any eligible recovery allowed*

Finding	Criteria	Description
		by paragraph (d) of this section that it could not have recovered through charges assessed pursuant to paragraph (e) of this section from CAF ICC Support pursuant to § 54.304. For this purpose, the Rate-of-Return Carrier must impute the maximum charges it could have assessed under paragraph (e) of this section.
12	47 C.F.R. § 32.2000(g)(2) (2018–2019)	*(2) 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*

Finding	Criteria	Description
		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.

Sikich CPA LLC

Appendix A

Comparison of Audit Findings from the prior Audit HC2017LR004, 2016 Disbursements to the current Audit HC2022LR015, 2021 Disbursements.

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
Combined with Finding No. 10 from HC2017LR004 below.		**Finding No. 1: 47 C.F.R. § 64.901 – Inaccurate Reporting: Cost Study Adjustments – Expenses.** The Beneficiary did not accurately calculate expense adjustments made to the Cost Study for High Cost Program (HCP) purposes.	$28,251	See explanation in Finding No. 8 from the current audit HC2022LR015 below.
Finding No. 11: 47 C.F.R. § 51.917(d)(v) – Inaccurate Revenues: Intrastate Terminating Switched Access Service and Interstate Switched Access Service Revenues. The Beneficiary's total Interstate and Intrastate Revenues on the billing reports and general ledger did not agree to the revenues reported for High Cost purposes.	($100,163)	**Finding No. 2: 47 C.F.R. § 51.917(d) – Inaccurate Revenue: Interstate Switched Access Service Revenue and Intrastate Terminating Switched Access Services.** The Beneficiary underreported its Interstate Switched Access Service Revenues and Intrastate Terminating Switched Access Services Revenues.	$307,375	The Beneficiary was able to provide more detail in the current audit HC2022LR015, which broke out the Competitive Local Exchange Carrier (CLEC) and Incumbent Local Exchange Carrier (ILEC) revenues, allowing for a more accurate reconciliation given

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
				the consolidated general ledger amounts for ILEC and CLEC. Due to this, we were able to accurately verify the revenues that showed significant differences to what was on the billings compared to what was reported for High Cost purposes. This resulted in having a higher monetary effect in the current audit HC2022LR015.
		Finding No. 3: 47 C.F.R. § 54.320(b) Inadequate Documentation: Form 509. The Beneficiary did not accurately report End User Subscriber Line Charge and End User Line Port Revenue and Consumer Broadband Only Lines (CBOLs) on the FCC Form 509 for HCP purposes.	$0	N/A, no prior year finding for comparison.

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
Finding No. 5: 47 C.F.R. §§ 32.6112(b), 32.6114(b), 32.6512(b), 32.6534(b) – Improper Distribution of Overhead Expenses. The Beneficiary used direct labor dollars instead of direct labor hours when distributing its overhead expenses.	$26,695	**Finding No. 4: 47 C.F.R. § 32.6112(b), 32.6512(b), 32.6534(b) 32.6535(b) – Improper Distribution of Overhead Expenses.** The Beneficiary used direct labor dollars instead of direct labor hours when distributing its overhead expenses.	$69,792	We sampled two months in the current audit HC2022LR015 versus one month in the prior audit HC2017LR004. Thus, we calculated a higher monetary effect due to more data being reviewed and verified for accuracy.
N/A	N/A	**Finding No. 5: 47 C.F.R. § 64.901(b): Improper Inclusion of Nonregulated Assets - Spare Fiber Allocation.** The Beneficiary Cable and Wire Facilities (CWF) categorization demonstrated incorrect category 1 amounts.	$73,938	N/A, no prior year finding for comparison.
Finding No. 13: 47 C.F.R. § 64.901(b)(3)(ii), 32.27 – Improper Allocation Methodology – Affiliated Transactions and Expense Transactions. The Beneficiary allocated administrative charges based on	($1,164,926)	**Finding No. 6: 47 C.F.R. § 64.901(b)(3)(ii) and 47 C.F.R. § 32.27 – Inaccurate Allocation Methodology – Affiliated Transactions.** The Beneficiary's allocation of affiliate transactions	($828,539)	The Beneficiary updated its Management Fees Allocation in the current audit HC2022LR015 to not include the non-cost causative "Revenue"

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
factors that were not cost causative.		demonstrated errors in calculation.		allocation factor noted in the prior audit HC2017R004, resulting in having a lower monetary effect.
N/A	N/A	**Finding No. 7: 47 C.F.R. § 36.121 – Inaccurate Reporting: Central Office Equipment.** The Beneficiary's Central Office Equipment (COE) common cost distribution demonstrated errors for the reporting of HCP purposes.	($16,971)	N/A, no prior year finding for comparison.
Finding No. 10: 47 C.F.R. § 64.901(a) – Improper Inclusion of Nonregulated Amounts and Inaccurate Cost Study Adjustments. The Beneficiary included nonregulated costs in account balances reported for HC Program purposes. In addition, the Beneficiary made errors in its calculations used to cost allocate adjustments for certain asset (and	($5,914)	**Finding No. 8: 47 C.F.R. § 64.901(b)(3)(ii) and 47 C.F.R. § 54.320(b) – Inaccurate/Inadequate Allocation Factors.** The Beneficiary used outdated data inputs for the removal of nonregulated activities from joint use assets and did not have supporting documentation for a factor developed for the removal of expenditures due to nonregulated activities.	($295,353)	The Beneficiary had the same or similar cost study adjustments in both audits HC2022LR015 and HC2017LR004; however, upon review of how the factor's application in the current audit HC2022LR015, the Beneficiary erroneously removed

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
their associated depreciation accounts) and expense accounts.				Marketing entries twice by removing costs utilizing the Marketing factor, on top of removing the $2.789 million in a cost study adjustment. Thus, this resulted in the higher monetary effect in the current audit HC2022LR015.
Finding No. 2: 47 C.F.R. § 54.320(b) – Lack of/Inadequate Documentation: Assets, Expenses and Cost Study Adjustments. The Beneficiary did not provide documentation to substantiate the value of the certain asset and expenses transactions. In addition, the Beneficiary provided supporting documentation that was insufficient to substantiate certain cost study adjustments for its High Cost (HC) data filings.	$211,661	**Finding No. 9: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets.** The Beneficiary was unable to provide adequate documentation for five asset samples.	$22,494	The Beneficiary was able to provide supporting details for assets sampled in current audit HC2022LR015; however, there were portions of the detail that could not be supported in the current audit HC2022LR015. Thus, the portion without detail—where we calculated a monetary effect—

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
				resulted for the current audit HC2022LR015 to have a lower monetary effect.
Finding No. 9: 47 C.F.R. § 32.2(a), (b) – Misclassification Assets and Expenses. The Beneficiary incorrectly reported certain assets and expenses transactions in the incorrect accounts.	($1,572)	**Finding No. 10: 47 C.F.R. § 32.2(a)(b) – Misclassification of Part 32 Accounts: Expenses.** The Beneficiary misclassified two expense and one travel transaction to the incorrect Part 32 account.	$14,044	In the current audit HC2022LR015 there were two expense transactions selected for detail testing with supporting evidence that the transactions are to be capitalized assets and not expenses. This resulted in a higher monetary effect in the current audit HC2022LR015 due to reclassification of expenses to assets Part 32 accounts, which included accounting for accumulated depreciation and depreciation expense for the transactions.

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
Finding No. 4: 47 C.F.R. § 51.917(e)(1), (2) – Inaccurate Access Recovery Charge Revenues. Based on the line counts provided per the Beneficiary's 24 month views, AAD identified the differences between the Beneficiary's imputed ARC Revenues and the Beneficiary's reported ARC Revenues.	$124,319	**Finding No. 11: 47 C.F.R. § 51.917(e)(1), (2) – Inaccurate Reporting of Revenue for Access Recovery Charges.** The Beneficiary did not accurately report revenues for Access Recovery Charges.	$12,379	The Beneficiary was able to provide a better understanding and detail in the current audit HC2022LR015, which may not have been available in the prior audit HC2017LR004, resulting in a lower monetary effect in the current audit HC2022LR015.
Finding No. 1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary did not calculate its depreciation using the average monthly asset balance as required by the FCC Rules and did not use its self-approved depreciation rates for certain assets related to General Support, Central Office Equipment	$504,123	**Finding No. 12: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation.** The Beneficiary did not calculate its depreciation using the average monthly asset balance as required by FCC Rules.	($26,753)	The Beneficiary changed from ending monthly balances to beginning monthly balances to calculate depreciation in the current audit HC2022LR015. In the prior audit HC2017LR004, depreciation was for 21 months as it was Dash-4 filing,

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
(COE), and Cable and Wire Facilities (CWF).				whereas the current audit HC2022LR015 recalculation is for 15 months, as it was a Dash-2 filing. This resulted in a lower monetary effect in current audit HC2022LR015.
Finding No. 3: 47 C.F.R. § 69.104(g)(h) – Misclassified Access Lines. The Beneficiary incorrectly reported 5,368 multi-line business lines as single-line business lines and residential lines.	$170,367	N/A	N/A	The procedure of obtaining individual line counts to review for misclassification is no longer part of the current audit program for HC2022LR015. Alternative methods are now utilized to reconcile lines and loops count.
Finding No. 6: 47 C.F.R. § 54.7(a), FCC 15-133, FCC 18-29 - Support Not Used for Intended Purpose of Federal Universal Service Support. The Beneficiary included transactions that were not	$2,592	N/A	N/A	We noted errors in the current audit HC2022LR015 testing; however, the monetary effect was below the materiality threshold, therefore

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
necessary for the provision, maintenance, and upgrading of facilities and services for which support is intended				no written finding included in the report in the current year.
Finding No. 7: 47 C.F.R. § 61.45(d) – Inaccurate True-Up Adjustment: Exogenous Cost. The Beneficiary did not report accurate exogenous costs for HCP purposes.	$1,216	N/A	N/A	The Beneficiary did not report Exogenous Cost for the current audit HC2022LR015 test periods of 2017–2018 and 2018–2019. Therefore, no written finding included in the report in the current year.
Finding No. 8: 47 C.F.R. § 32.2000(e), (f) – Incomplete/Inadequate Documentation: Continuing Property Records. The Beneficiary's CPRs for its central office assets did not reconcile to the general ledger; it was unable to provide a CWF CPR that agrees to Dash 1 filing data; and the Beneficiary did not account for the individual retirements within its CWF CPR.	$0	N/A	N/A	Similar errors were noted in the current audit HC2022LR015; however, this remained a $0 monetary effect.

Prior Audit: HC2017LR004 – 2016 Disbursements		Current Audit: HC2022LR015 – 2021 Disbursements		Potential Explanation for Deviation
Audit Results	**Monetary Effect: Total**	**Audit Results**	**Monetary Effect: Total**	
Finding No. 12: 47 C.F.R. § 54.1305(i), 54.903(a)(1) – Inaccurate Loop and Access Line Count Reporting. The Beneficiary reported inaccurate access lines and loop counts for High Cost Loop and Interstate Common Line Support purposes**.**	($648,230)	N/A	N/A	Procedures did not exist for substantive testing to be performed in the current audit HC2022LR015, as the Interstate Common Line Support (ICLS) fund was not part of the audit scope. The fund replacing ICLS was the Connect America Fund (CAF) Broadband Loop Support (BLS).
Total	**($879,832)**		**($639,343)**	

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment A Sierra Telephone Company, Inc.	0	• Not applicable.	$180,222	$0	$0	N/A
Total	**0**		**$180,222**	**$0**	**$0**	

Attachment A

LI2022LR005

Sierra Telephone Company, Inc.

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

USAC Audit No. LI2022LR005

CONTENTS

EXECUTIVE SUMMARY

August 17, 2023

Mr. Robert J. Griffin
Vice President
Sierra Telephone Company, Inc.
49150 Rd 426
Oakhurst, CA 93644

Dear Mr. Griffin:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Sierra Telephone Company, Inc.(Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers for the 18-month period from January 1, 2020 through June 30, 2021 using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communication Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the 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 did not disclose any areas of non-compliance with the FCC Rules that were in effect during the audit period.

USAC may have been 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, 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
Tim O'Brien, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the 18-month period from January 1, 2020 through June 30, 2021 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
542338	CA	Lifeline	23,957	$180,222
		Total	**23,957**	**$180,222**

Note: The amount of support reflects disbursements as of the commencement of the audit.

BACKGROUND

The Beneficiary is an incumbent eligible telecommunications carrier (ETC) that operates in the state identified in the Scope table above.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

AAD obtained and examined the Beneficiary's LCS submissions for accuracy by comparing the amounts reported to the state database and the Beneficiary's data files. AAD 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 the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased 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
AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or state database results for 58 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households (IEH)
AAD obtained and tested documentation or National Verifier results for one subscriber to determine whether the subscriber properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts
AAD obtained and examined documentation to demonstrate the pass-through of Lifeline Program support for 58 subscribers.

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

F. Minimum Service Standard
AAD obtained and examined the Beneficiary's evidence of the level of service provided for 58 subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and complied with the FCC Rules.

This concludes the report.

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Attachment B Sage Telecom Communications	0	• Not applicable.	$3,141,135	$0	$0	N/A
Total	**0**		**$3,141,135**	**$0**	**$0**	

,

Attachment B

LI2022LR015

DP George & Company

Sage Telecom Communications

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund Lifeline Support Mechanism Rules
USAC Audit No. LI2022LR015

CONTENTS

DP George & Company

EXECUTIVE SUMMARY

May 8, 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 Sage Telecom Communications (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during January 2020 – June 2021, using the Federal Communications Commission (FCC) regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the 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 review performance 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 examination did not disclose any areas of non-compliance with the FCC Rules that were in effect during the audit period.

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

Based on the test work performed, our examination did not disclose any areas of non-compliance with the FCC Rules that were in effect during the audit period.

PURPOSE, SCOPE, AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline program support the Holding Company received based on its Lifeline Claim System (LCS) submissions for the 18-month period from January 2020 through June 2021 (the audit period):

SAC Number	State	Support Type	Number of Subscribers	Amount of Support
159042	NY	Lifeline	29,933	$2,116,267
289038	MS	Lifeline	9,015	$736,696
529029	WA	Lifeline	5,749	$281,738
629015	HI	Lifeline	285	$6,434
Total			**44,982**	**$3,141,135**

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

BACKGROUND

The Holding Company is a competitive eligible telecommunications carrier (ETC) that operates in 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 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 169 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 139 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 169 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 150 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 169 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 to determine whether the Holding Company complied with the FCC Rules. DPG also examined documentation for 15 enrollment representatives to determine whether the Holding Company compensates its enrollment representatives on a commission basis.

This concludes the report.