High Cost and Low Income Committee Meeting

Audit Briefing Book

Monday,October 29, 2018

1:00 p.m. - 4:00 p.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC 20005

Summary of High Cost Support Mechanism Beneficiary Approved Audit Reports: August 1, 2018 – August 31, 2018

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Gila River **(Attachment A)**	11	• **Inaccurate Depreciation Calculation.** The Beneficiary did not have adequate processes in place governing the proper calculation of Accumulated Depreciation and Depreciation Expense using the appropriate methodology as prescribed by FCC Rules, using the appropriate depreciation rates approved by the Gila River Indian Community and validating cost study adjustments were applied to the appropriate period. • **Improper Affiliate Transactions.** The Beneficiary did not have adequate review policies to validate that amounts billed from affiliates are consistent with third party source documentation and were determined in compliance with applicable FCC Rules and Orders. • **Miscategorized Assets**. The Beneficiary did not have a review process for cost study adjustments to ensure the reclassifications were	$9,548,453	$504,931	$504, 931	Y

Entity Name	**Number of Findings**	**Material Findings**	**Amount of Support**	**Monetary Effect**	**USAC Management Recovery Action**	**Entity Disagreement**
		appropriate and in accordance with FCC Rules and Orders. • **Lack of Documentation: Assets**. The Beneficiary did not have adequate documentation retention processes to validate the existence of assets posted to the General Ledger (G/L). • **Miscategorized Central Office Equipment.** The Beneficiary did not have processes in place to review the accuracy of power and common allocations for Central Office Equipment (COE) assets. • **Lack of Documentation: Expenses**. The Beneficiary did not have adequate documentation retention policies to validate the accuracy and existence of expenses posted to the G/L.				
Copper Valley **(Attachment B)**	2	• **Incorrect Nonregulated Adjustments for Rate Base and Expenses.** The Beneficiary made nonregulated adjustments for cable and wire assets by assigning the asset to a non-interstate category in its cost studies. However, the assets'	$11,116,061	$1,547,112	$1,547,112	Y

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
		accumulated depreciation, depreciation expense, and related maintenance expenses should have been removed from the cost studies and High Cost Program filings. • **Incorrect Treatment of Substantial Rent Expense Paid to an Affiliate**. The processes to prepare, review, and approve the cost studies and High Cost Program filings did not identify the affiliate transactions as substantial rents and the application of the requirements in 47 C.F.R. § 36.2(c)(2).				
Total	**13**		**$20,664,514**	**$2,052,043**	**$2,052,043**	

Gila River Telecommunications, Inc.
Audit ID: HC2016BE017
(SAC No.: 452179)

Performance audit for the Universal Service High Cost Program Disbursements made during the twelve-month period ended December 31, 2015

Prepared for: Universal Service Administrative Company

As of Date: October 31, 2017

KPMG LLP
1225 17th Street
Suite 800
Denver, CO 80202

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KPMG

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EXECUTIVE SUMMARY

October 31, 2017

Mr. Wayne Scott, Vice President – Internal Audit Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to Gila River Telecommunications, Inc., Study Area Code ("SAC") No. 452179, ("GRTI" or "Beneficiary") for disbursements, of $9,548,453, made from the Universal Service High Cost Program ("HCP") during the twelve-month period ended December 31, 2015. Our work was performed during the period from August 4, 2016 to October 31, 2017, and our results are as of October 31, 2017.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2011 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as FCC Orders governing federal Universal Service Support for the HCP (collectively, the "Rules") relative to disbursements, of $9,548,453, made from the HCP during the twelve-month period ended December 31, 2015. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As our report further describes, KPMG identified eleven findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the HCP for the twelve-month period ended December 31, 2015 were $504,931 higher than they would have been had the amounts been reported properly.

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated October 31, 2017.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
COE	Central Office Equipment
CPRs	Continuing Property Records
ETC	Eligible Telecommunications Carrier
FCC	Federal Communications Commission
FDC	Fully Distributed Cost
Form 509	Interstate Common Line Support Mechanism Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
GRTI	Gila River Telecommunications, Inc.
GSA	General Support Assets
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
HCM	High Cost Model
HCP	High Cost Program
ICC	Intercarrier Compensation
ILEC	Incumbent Local Exchange Carrier
ISDN	Integrated Services Digital Network
IXC	Interexchange Carrier
LEC	Local Exchange Carrier
MLB	Multi-Line Business
NECA	National Exchange Carrier Association
PBO	Payroll, Benefits and Overhead
SAC	Study Area Code
SLB	Single-Line Business
SLC	Subscriber Line Charge
SNA	Safety Net Additive
SVS	Safety Valve Support
TB	Trial Balance
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery[1]
HC2016BE017-F01: Inaccurate Depreciation Calculation – The Beneficiary used month end balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules. Also for a portion of the COE – Switching (Account 2212) balance, the Beneficiary applied an incorrect depreciation rate and the Beneficiary inappropriately recorded a cost study adjustment to record depreciation on an asset retired in 2012.	$ 221,288	$ 221,288
HC2016BE017-F02: Improper Affiliate Transactions – The Beneficiary was unable to provide support for variances between third party invoices and support services pass-through billings from their non-regulated affiliate, Native Technology Solutions. In addition, the Beneficiary was inappropriately charged a two percent General and Administrative carrying charge in addition to the 11.25 percent return on investment charge for their building lease with their non-regulated affiliate, Gila River Asset Management. Finally, the Beneficiary was unable to provide all of the necessary cost support for a dark fiber lease with their non-regulated affiliate, Alluvion.	$ 169,513	$ 169,513
HC2016BE017-F03: Miscategorized Assets – The Beneficiary inappropriately made cost study adjustments to reclassify software costs from Intangibles (Account 2690) to Buried Cable (Account 2423), along with corresponding cost study adjustments to accumulated depreciation and depreciation expense.	$ 49,691	$ 49,691
HC2016BE017-F04: Lack of Documentation: Assets – The Beneficiary was unable to provide support for four sampled assets, resulting in overstatements in the following asset accounts (and asset categories) and the corresponding accumulated depreciation and depreciation expense accounts: COE Switching (Account 2210), COE Transmission (Account 2230), COE Category 4.13, C&WF (Account 2410), and C&WF Category 1.	$ 47,251	$ 47,251
HC2016BE017-F05: Miscategorized Central Office Equipment – The Beneficiary inaccurately calculated COE power and common allocations for the twelve-month periods ended December 31, 2013, March 31, 2014 and September 30, 2014.	$ 10,809	$ 10,809
HC2016BE017-F06: Lack of Documentation: Expenses – The Beneficiary was unable to provide support for five sampled expenses, resulting in overstatements in Underground Cable Expense (Account 6422), Buried Cable Expense (Account 6423),	$ 5,481	$ 5,481

[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.

Audit Results	Monetary Effect	Recommended Recovery[1]
Customer Service Expense (Account 6623), and General and Administrative Expense (Account 6720).		
HC2016BE017-F07: Misclassified Expenses – The Beneficiary inappropriately recorded employee tuition expenses totaling $31,657 to regulated expense accounts.	$ 2,657	$ 2,657
HC2016BE017-F08: Inaccurate Continuing Property Records – The Beneficiary improperly included a COE asset that was retired in 2012 in the twelve-month periods ended December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014 CPR balances.	$ 941	$ 941
HC2016BE017-F09: Inaccurate Categorization Factor – The Category 1.3 Loops used to determine the wideband allocation factor of COE and C&WF did not agree to underlying source documentation.	($ 1,033)	($ 1,033)
HC2016BE017-F10: Inaccurate Loop Counts – Total Loops, Category 1.3 Loops and Access Lines reported on the 2013 HCP Forms did not agree to underlying source documentation.	($ 1,667)	($ 1,667)
HC2016BE017-F11: Improper Distribution of Overhead Amounts – The Beneficiary calculated the overhead allocations for Provisioning Expense (Account 6512) based on fixed percentages rather than using direct material cost.	$ -*	$ -*
Total Net Monetary Effect	**$ 504,931**	**$ 504,931**

* The monetary effect could not be determined based upon limited availability of data from the Beneficiary.

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery of the High Cost Program support amount noted in the chart below. USAC requests that the Beneficiary provide a detailed description of policies and procedures implemented to address all findings, including a detailed description of how the carrier will address the auditor's recommendations, no later than sixty (60) days after receipt of this audit report. Please submit the requested information to hcaudits@usac.org. The Beneficiary may be subject to further review if the Beneficiary does not provide the requested information to USAC.

	ICLS	HCL	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$ 2,462	$218,826	$221,288	
Finding #2	$43,157	$126,356	$169,513	
Finding #3	($ 978)	$ 50,669	$ 49,691	
Finding #4	$ 6,074	$ 41,177	$ 47,251	
Finding #5	$ 1,799	$ 9,010	$ 10,809	
Finding #6	$ 3,335	$ 2,146	$ 5,481	
Finding #7	$ 2,196	$ 461	$ 2,657	
Finding #8	$ 312	$ 629	$ 941	
Finding #9	$ 28	($ 1,061)	($ 1,033)	
Finding #10		($ 1,667)	($ 1,667)	
Finding #11			$ 0	
Mechanism Total	**$58,385**	**$446,546**	**$504,931**	**$0**

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

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. The purpose of USAC is to administer the USF through four support mechanisms: High Cost; Low Income; Rural Health Care; and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations or advocate regarding any matter of universal service policy.

The High Cost Support Mechanism, also known as the HCP, ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas, regardless of location or economic strata. Thus, the HCP provides support for telecommunications companies (Beneficiaries) that offer services to consumers in less-populated areas. The HCP consists of the following support mechanisms:

1. HCL: HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following two sub-components:
   a. SNA: SNA support is available for carriers that make significant investment in rural infrastructure in years when HCL support is capped and is intended to provide carriers with additional incentives to invest in their networks.
   b. SVS: SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. HCM: HCM support is available to carriers serving wire centers in certain states where the forward-looking costs to provide service exceed the national benchmark.
3. CAF ICC: CAF ICC support is available to ILECs to recover revenue that is not covered by Access Recovery Charges (ARC) to the end user.
4. ICLS: ICLS is available to rate-of-return incumbent carriers and competitive carriers, and is designed to help carriers offset interstate access charges and to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its SLCs remain affordable to its customers.
5. IAS: IAS is available to price cap incumbent carriers and competitive carriers, and is designed to offset interstate access charges for price cap carriers.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $9,548,453, made from the HCP during the twelve-month period ended December 31, 2015.

Beneficiary Overview

Gila River Telecommunications, Inc. (SAC No. 452179), the subject of this performance audit, is a tribal entity and rural ILEC located in Chandler, Arizona. GRTI offers broadband and voice services. Service areas include the Gila River Indian Community located in central Arizona.

The Beneficiary, along with various affiliated companies, Alluvion Communications, Inc. ("Alluvion"), Native Technology Solutions ("NTS"), Gila River Asset Management ("GRAM"), and Gila River Broadcasting Corporation ("GRBC") are wholly owned by the Gila River Indian Community.

The following table details the organization structure of the Beneficiary:

Name	Services Offered
Gila River Telecommunications, Inc.	Rural ILEC providing broadband and voice services
Alluvion Communications, Inc.	Rural LEC providing internet and long distance services
Native Technology Solutions	Sells, installs, and maintains customer premise equipment
Gila River Asset Management	Constructs, owns and operates communications facilities
Gila River Broadcasting Corporation	Provides limited low power television broadcasting services

The following table illustrates the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2015 by fund type:

High Cost Support	Data Period	Disbursement Period	Disbursement Amount
High Cost Loop (HCL)	January 1, 2013 to September 30, 2014	January 1 to December 31, 2015	$6,369,893
Interstate Common Line Support (ICLS)	January 1 to December 31, 2013	January 1 to December 31, 2015	$2,567,718
Connect America Fund (CAF) Intercarrier Compensation (ICC)	July 1, 2013 to June 30, 2014	January 1 to December 31, 2015	$ 610,842
Total			**$9,548,453**

Source: USAC

The High Cost support received by the Beneficiary during the twelve-month period ended December 31, 2015, was based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2014-1, 2014-2, 2014-3 and 2014-4 HCL Forms, based on the twelve month periods ended December 31, 2013, March 31, 2014, June 30, 2014, and September 30, 2014
- 2013 FCC Form 509, based on calendar year 2013 data, and
- 2013 CAF ICC Tariff Review Plan (TRP), based on program year 2013 data

The above Forms capture the totals of certain pre-designated G/L Accounts including all asset accounts that roll into the TPIS account as well as certain deferred liabilities and operating expenses, subject to the allocation between regulated and non-regulated activities (Part 64 Cost Allocations), the separation between interstate and intrastate operations (Part 36 Separations) and the separation between access and non-access elements (Part 69 Separations). In addition, the Beneficiary is required to submit certain annual investment data, including the categorization of COE and C&WF on the HCP Forms.

OBJECTIVES

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as FCC Orders governing federal

Briefing book excludes all materials discussed in Executive Session.

Universal Service Support for the HCP relative to disbursements, of $9,548,453, made from the HCP during the twelve-month period ended December 31, 2015.

SCOPE

The scope of this performance audit includes, but is not limited to, reviewing HCP Forms or other correspondence and supporting documentation provided by the Beneficiary, assessing the methodology used to prepare or support the HCP Forms or other correspondence, and evaluating disbursement amounts made or potentially due based on filing of HCP Forms or other correspondence relative to disbursements made from the HCP during the twelve-month period ended December 31, 2015, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the HCP during the twelve-month period ended December 31, 2015.

KPMG identified the following areas of focus for this performance audit:[2]

1. General Procedures
2. Materiality Analysis
3. Reconciliation
4. Assets
5. Expenses
6. HCP Eligibility Forms
7. COE Categorization
8. C&WF Categorization
9. Payroll, Benefits and Overhead
10. Taxes
11. Part 64 Cost Allocations
12. Affiliate Transactions
13. Revenues, Subscriber Listings and Billing Records
14. Revenue Requirement

PROCEDURES

1. General Procedures

KPMG obtained and examined the ETC designation order to determine whether the Beneficiary was designated as an ETC in the study area prior to receiving HCP support. We obtained and examined the Beneficiary's self-certification letters for timeliness and the notation that all federal HCP 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. We also obtained the Form 481 filed by the Beneficiary to determine whether the Beneficiary made the required certifications and whether the Beneficiary's supporting documentation agrees to the data reported for the certifications made.

2. Materiality Analysis

For the applicable HCP Forms, we obtained the forms submitted for the period ended December 31, 2013, input the information into KPMG's HCP models, and ran an automated materiality analysis that increased and

[2] If exceptions were noted in areas other than the aforementioned in-scope areas as a result of our testing procedures and the execution of our performance audit, we identified those findings in the 'Results' section of the report.

decreased the account balances by +/- 50%, if the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for purposes of our performance audit.

3. **Reconciliation**

KPMG obtained the audited 2013 financial statements and reconciled to the G/L, from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable HCP Forms. We obtained explanations for any reconciling differences.

4. **Assets**

KPMG utilized a monetary unit sampling methodology to select asset samples from material accounts identified in the relevant HCP Forms and compared CPR balances between prior and current years. We determined whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the work orders and verified proper Part 32 categorization; and validated the physical existence of selected assets. We identified four assets where supporting documentation was not available and performed alternative procedures by selecting a similar asset of make, model and time period and obtained and reviewed underlying documentation to substantiate the original cost of the original asset selected for sampling. Additionally, we identified four other assets where the Beneficiary was unable to provide detailed underlying documentation to substantiate the amounts in the CPRs and included in the HCP Forms.

5. **Expenses**

KPMG utilized a monetary unit sampling methodology to select expense samples from material operating expense accounts identified in the relevant HCP Forms (HCL and ICLS) and compared expense account balances between prior and current years. We selected an additional sample of expenses recorded in regulated accounts to determine that such expenses were incurred in the provision of HCP supported services. Expense amounts were agreed to the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

6. **HCP Eligibility Forms**

For the relevant HCP Forms (HCL, ICLS and CAF ICC) completeness of reported accounts was determined via reconciliations to the audited financial statements via the 'Reconciliation' process described above. Reconciling items were discussed with the Beneficiary.

7. **COE Categorization**

KPMG reviewed the methodology established by the Beneficiary for COE categorization including the process for updating the network map and COE cost studies as well as performing a physical inspection. We validated that COE amounts reconciled to studies including reviewing power and common, Part 36 inputs and that amounts agreed to the HCL Form data.

8. **C&WF Categorization**

KPMG reviewed the methodology established by the Beneficiary for C&WF categorization including the process for updating the network map and C&WF cost studies. We compared C&WF amounts to the studies and the HCL Form data and also performed a route distance inspection.

9. **Payroll, Benefits and Overhead**

KPMG performed a walkthrough of the PBO process and selected a work order closed in 2013 from the asset sample selected for testing to perform flow-through payroll testing, tracing the transaction from the work order to the individual timesheet through the payroll process to the G/L. KPMG also selected a sample of employees and requested their timesheets from one period to verify the hours per the timesheets and extended labor

dollars were classified to the correct Part 32 accounts. Additionally, we reviewed overhead clearing reports for a selected month and reviewed the overhead clearance process for compliance with Part 32 requirements.

10. Taxes

KPMG determined the tax filing status for the Beneficiary and noted that GRTI is considered a sovereign nation. Therefore, the Beneficiary is not subject to state or federal taxes.

11. Part 64 Cost Allocations

KPMG reviewed the Beneficiary's cost apportionment methodology and performed procedures to evaluate the apportionment factors which included performing a walkthrough with the Beneficiary and evaluating the reasonableness of the cost pool and regulated/non-regulated apportionment factors as compared to regulated and non-regulated activities performed by the Beneficiary, assessing the reasonableness of the allocation methods and corresponding data inputs used to calculate the material factors and recalculating each of the material factors.

12. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that occurred during 2013. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions, for testing. Testing selections included: building leases, fiber leases, vehicle leases, and miscellaneous expenses charged to GRTI from their non-regulated affiliates. For the sample selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and categorized in the appropriate Part 32 accounts.

13. Revenues, Subscriber Listings and Billing Records

KPMG examined revenue G/L accounts, invoices and other related documentation to verify the accuracy and existence of revenue account balances. KPMG analyzed subscriber listings and billing records to determine that the number and type of lines reported in the HCP filings agreed to underlying support documentation that subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops, and that lines were properly classified as residential/single-line business or multi-line business.

14. Revenue Requirement

KPMG reviewed the calculation of the Beneficiary's revenue requirement, including assessing the reasonableness and application of Part 64 cost allocation, Part 36 and Part 69 separations and other cost study adjustments utilized in the calculation of the common line revenue requirement.

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary responses, with respect to the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69, applicable to the disbursements made from the HCP during the twelve-month period ended December 31, 2015.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

KPMG's performance audit procedures identified eleven findings. The findings, including the condition, cause, effect, recommendation and Beneficiary response are as follows:

Finding # HC2016BE017-F01: 47 C.F.R. Section 32.2000(g)(2)(i) - Inaccurate Depreciation Calculation

CONDITION

For various asset accounts the Beneficiary did not accurately compute accumulated depreciation and depreciation expense for the period.

a) The Beneficiary used month end balances instead of average monthly balances to compute depreciation as prescribed by FCC Rules.

b) The Beneficiary used a 33.34 percent depreciation rate for the Metaswitch Softswitch portion of Account 2212: COE Switching, rather than the ten percent depreciation rate approved by the Gila River Indian Community.

c) The Beneficiary made a December 31, 2013 cost study adjustment to record $131,583 in depreciation to Account 3100: Accumulated Depreciation – COE Switching and Account 6560: Depreciation Expense – COE Switching for a switch that was retired in 2012. The asset and the corresponding depreciation should not have been included in the twelve-month periods ended December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014 cost studies.

The differences noted in the Accumulated Depreciation ("AD") and Depreciation Expense ("DE") balances for the twelve-month periods ended December 31, 2013, impacting the 2013 Form 509; March 31, 2014, impacting the 2014-2 HCL Form; June 30, 2014, impacting the 2014-3 HCL Form; and September 30, 2014, impacting the 2014-4 HCL Form, are as follows:

Account	AD Difference December 31, 2013	AD Difference March 31, 2014	AD Difference June 30, 2014	AD Difference September 30, 2014
3100 (2210) – AD (COE Switching)	$ 484,166	$ 439,565	$ 843,633	$ 923,199
3100 (2230) – AD (COE Transmission)	$ 10,846	$ 10,222	$ 12,217	$ 12,520
3100 (2410) – AD (C&WF)	$ 3,056	$ 2,671	$ 3,363	$ 4,017
Total	**$ 498,068**	**$ 452,458**	**$ 859,213**	**$ 939,736**

Account	DE Difference December 31, 2013	DE Difference March 31, 2014	DE Difference June 30, 2014	DE Difference September 30, 2014
6560 (2210) – DE (COE Switching)	$ 484,166	$ 474,887	$ 464,683	$ 454,474
6560 (2230) – DE (COE Transmission)	$ 10,846	($ 44)	$ 3,499	$ 3,106
6560 (2410) – DE (C&WF)	$ 3,056	$ 3,178	$ 3,422	$ 3,261
Total	**$ 498,068**	**$ 478,021**	**$ 471,604**	**$ 460,841**

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation of AD and DE using the appropriate methodology as prescribed by FCC Rules, using the appropriate depreciation rates approved by the Gila River Indian Community and validating cost study adjustments were applied to the appropriate period.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $221,288 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 218,826	$ 218,826
ICLS	$ 2,462	$ 2,462
Total	**$ 221,288**	**$ 221,288**

*To calculate the above monetary impacts, COE Switching (Account 2212) had to be set at zero as the above finding resulted in a debit balance in AD - COE Switching (Account 3100-2210) because of a cost study adjustment reclassifying a large portion of COE Switching asset costs, AD and DE to corresponding COE Transmission asset and depreciation accounts.

RECOMMENDATION

The Beneficiary should enhance the preparation, review and approval processes governing the calculation of depreciation and the use of proper rates to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

The beneficiary in part disagrees and in part agrees with this finding and would like to respond to each subpart:

a. The beneficiary agrees with this finding and has already made corrections to its accounting system to use average monthly balances to compute depreciation expense

b. The beneficiary in part agrees, and in part disagrees, and makes the following responses to this part of this finding:

   i. The beneficiary inadvertently did use a 33.34% depreciation rate for *all* of the Metaswitch softswitch. The beneficiary asserts that while using this depreciation rate was improper for the hardware portion of the switch, this rate is proper for the software portion of the switch (see ii below)

   ii. The beneficiary further acknowledges that it corresponded with KPMG that the software portion of the Metaswitch was appropriately recorded to same Part 32 account as the hardware, only the software was correctly amortized over a three year period. GRTI arrived at this determination after consultation with its independent financial auditor, and thus the beneficiary notes a 33.34% amortization

rate is reasonable for this type of software and believes this comports to Part 32.2000(i), which states, *"Accounting for software. The original cost of initial operating system software for computers shall be classified to the same account as the associated hardware whether acquired separately or in conjunction with the associated hardware."* GRTI's Metaswitch is, for all practical purposes, a computer. Furthermore, GRTI relied upon Part 32.2000(h)(1), which states, *"The cost of each type of asset shall be amortized on the basis of the estimated life of that asset" and "a reasonable estimate of the useful life may be based on the upper or lower limits even though a fixed existence is not determinable."*

iii. The beneficiary notes that the entire amount of the Metaswitch cost was $1,462,286. Of this amount, $592,421 was software-related, leaving a balance of $869,865 as hardware. All of this information, including invoices, detailed accounting, and CPR-level detail was given to KPMG. As the beneficiary believes its reporting/cost recovery for the software portion of the Metaswitch was therefore reasonable and proper, the beneficiary's calculation for the hardware depreciation expense portion is therefore as follows: $869,865 x (33.34% - 10%) = $203,026 of overstated central office switching depreciation Expense.

c. The beneficiary disagrees with this finding. While the beneficiary did make a cost study adjustment for $131,583, this was done at the sole mandate and request of NECA. During 2012 when the [Coppercom] switch was retired and accelerated depreciation was taken to acknowledge its end-of-life (of which proper and corroborative documentation was given to KPMG), coupled with an appropriate and evidentiary Resolution passed by the Gila River Indian Community prior to 2012 to recognize the Coppercom switch was at its end-of-life and no longer going to be supported, the beneficiary appropriately used a 33.34% rate to acknowledge this fact and comport to GAAP. However, NECA questioned the amount of the Coppercom depreciation expense and mandated the beneficiary amortize this depreciation over three years (see Exhibit 1). See specifically NECA's response on January 16th, 2014 at 2:50 pm for their requirement. Not only did NECA allow the depreciation expense, but also simply wanted to interject a reasonableness measure into the booking/recording of the Coppercom end-of-life depreciation expense, and therefore allowed this depreciation expense, except over a bit longer period of time. The beneficiary was happy to comply, and this was the basis behind the cost study adjustment. Lastly, all of the information (NECA correspondence, reasoning, explanation, amounts, etc.) was given to KPMG for them to review.

In the beneficiary's calculation of all of the above, and with its contention that KPMG is incorrect regarding "c" above, this equates to an overpayment of approximately $92,976 instead of $221,288 (noting that "a" above is not included in the beneficiary's total).

KPMG RESPONSE

See KPMG's responses to each item noted below:

a. The Beneficiary agrees with this finding, thus KPMG has no additional response for this item.

b. KPMG consulted with USAC and the FCC in regards to the methodology of using separate hardware and software depreciation rates to depreciate portions of a switching equipment asset. The Beneficiary has defined its property unit in this case to be COE switching equipment – switching equipment has long required both software and hardware to function within the telecommunications network and this fact has not changed in the case of advances in switching technology, including the introduction of the Metaswitch. As supported by the Part 32 Rules, as both software and hardware are required to enable the functionality of

the Metaswitch, both components should be depreciated at the prescribed COE switching equipment depreciation rate of ten percent.

c. KPMG disagrees with the Beneficiary. KPMG notes that in September 2010 the Beneficiary sent a letter to the Gila River Indian Community ("GRIC"), the Beneficiary's governing body, requesting the termination and accelerated depreciation of the Coppercom switch over a two year period starting November 2010. This request was approved by GRIC, and the proper accounting should have been applied beginning in 2010 to ensure that the asset retired in 2012 was fully depreciated at the time of its retirement. However the Beneficiary did not begin to record accelerated depreciation of this asset until December 2012. This resulted in depreciation expense being improperly recorded in 2013 for an asset that was retired in 2012.

Finding # HC2016BE017-F02: 47 C.F.R. Section 32.27(c)(2) - Improper Affiliate Transactions

CONDITION

(1) Over a three year period, the Beneficiary was billed $73,658 by its non-regulated affiliate, NTS, for network support services. These support services were provided by a third party, billed to NTS, and subsequently passed-through to GRTI. Differences between the third party invoices and the NTS invoices billed to GRTI were noted, as NTS marked-up third party invoice costs billed to GRTI. The Beneficiary, however, could not provide support to determine how these mark-ups were established. The differences by twelve-month period impacting the various ICLS and HCL Forms are noted below:

Account	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
6110 – Network Support Expense	$ 2,232	$ 3,906	$ 5,580	$ 6,696

(2) The Beneficiary was inappropriately charged an annual two percent General and Administrative carrying charge of $55,884 (in addition to an annual 11.25 return on investment charge totaling $314,349) for a building lease with GRAM, a non-regulated affiliate. This resulted in overstatements of Account 6120 - General Support Expense, in each twelve-month filing period.

(3) GRTI leased dark fiber from its non-regulated affiliate Alluvion and was charged $28,000 per month. The only sufficient underlying documentation the Beneficiary was able to provide in support of the $28,000 monthly lease payment was a non-executed agreement between Alluvion and a third party for $16,657 in fiber capacity lease costs. The lack of support for other costs included in Alluvion's monthly charges to GRTI resulted in the following overstatements for the twelve-month periods impacting the various ICLS and HCL Forms:

Account	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
6120 – General Support Expense	$ 136,116	$ 136,116	$ 136,116	$ 136,116

CAUSE

The Beneficiary did not have adequate review policies to validate that amounts billed from affiliates agree to third party source documentation and were determined in compliance with applicable FCC Rules and Orders.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $169,513 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 126,356	$ 126,356
ICLS	$ 43,157	$ 43,157
Total	**$ 169,513**	**$ 169,513**

RECOMMENDATION

The Beneficiary and its affiliates should implement procedures and controls to fully document and support the fully distributed cost ("FDC") of transactions between affiliates, excluding costs and mark-ups not allowed by FCC Rules and Orders, and maintain documentation supporting affiliate transactions to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

The Beneficiary disagrees with this finding and would like to respond to each subpart:

1. KPMG states that costs were incurred by NTS, subsequently passed-through to the Beneficiary, and marked-up. NECA has a long standing position that it is appropriate for companies to mark up costs in an effort to recognize allowable profit margins (see Exhibit 2). For example, in the instant case network support services were provided by a third party, billed to NTS, and subsequently passed-through to the Beneficiary. What KPMG fails to take into consideration are the costs incurred by NTS in seeing that these network services require at least some NTS loaded labor costs necessary to effectively pass these costs through to the Beneficiary. NTS must work with the third party to, at a minimum, ascertain the services were what the Beneficiary ordered; ascertain the components included in the service; review the finished product; and have correspondence and dialogue with the third party. All of this comes with an associated cost to NTS. Furthermore, after the network support service is agreed upon, NTS must then have the appropriate dialogue, correspondence, and provide the necessary accounting and/or other administrative communication with the Beneficiary. Again, this all comes with a cost to NTS. Lastly, NTS is a preferred distributor and received a discount off of retail pricing from Cisco, further indicating that the Beneficiary and its affiliates are acting in good faith to reduce, and not increase, HCLS and ICLS funding.

2. KPMG is comparing "apples and oranges" in this part of the finding. The application of "carrying charges" as a tool in rate calculations is common practice in the industry. Paragraph 28 of FCC 01-170, for example, specifically details the components that comprise carrying charges, as follows:

   "The carrying charges include the utility's administrative, maintenance, and depreciation expenses, a return on investment, and associated income taxes. To help calculate the carrying charge rate, we developed formulas that relate each of these components to the utility's net pole investment."

   KPMG states in their finding that the Beneficiary was charged "an annual two percent General and Administrative carrying charge of $55,884 (in addition to an annual 11.25% return on investment charge totaling $314,349)". The Beneficiary notes that not only are these charges not "inappropriately charged" as KPMG asserts, but that these types of charges are specifically allowed per FCC own rules and Orders. Furthermore, the rate of return component inherent in carrying charges pertains to the cost of money, while the general & administrative component is completely separate and not associated with the rate of return, at all, in the application of carrying charges. In addition, the Beneficiary provided corroborative support and documentation how its two percent general and administrative was derived. Lastly,

Briefing book excludes all materials discussed in Executive Session.

the Beneficiary's cost consultant offered to work with KPMG on the allowance, workings, and application of carrying charges, but unfortunately to no avail.

3. The Beneficiary disagrees with KPMG's statement that "The only sufficient underlying documentation the Beneficiary was able to provide in support of the $28,000 monthly lease payment was a non-executed agreement between Alluvion and a third party for $16,657 in fiber capacity lease costs. The lack of support for other costs included in Alluvion's monthly charges to GRTI resulted in the following overstatements for the twelve-month periods impacting the various ICLS and HCL Forms." Not only was the agreement executed per an email exchange with KPMG on April 5th 2017, but the Beneficiary also provided other supporting documentation to KPMG on April 24th, 2017 pertaining to a "$250,000 8 Channel DWDM System, 1 10G, 1 OC48, 6 waves future - 5 year support offer." This support equates to an additional $2,083 per month in lease 1 See FCC 01-170, paragraph 4, paragraph 28; see also FCC 00-116 fees. Floor space and other costs, while not determinable in the [unreasonable] timeframe required (KPMG allotted about three weeks for the Beneficiary to locate and provide this information, with the first request on April 5th, 2017, however the Beneficiary provided the lease to KPMG on October 13th, 2016), the Beneficiary believes it would have been able to provide a sufficient record for this finding if given enough time). The Beneficiary would also wish to note that original costs of property may be estimated based on reasonable measures. Part 32.2000(f) (4) states, *"Estimates. In cases where the actual original cost of property cannot be ascertained....the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed."* While the Beneficiary would like to respectfully request an additional six weeks of time to locate any additional information that may be missing from this audit request, the Beneficiary also believes the above rule injects a reasonableness measure into the determination of a lease payment whereby floor space and other costs are indeed necessary, and therefore [either actual or estimated] costs should be included in the calculation. The Beneficiary believes that, given the Part 36 rule allowance per above; the fact that floor space, collocation fees, recurring and startup costs are necessary in the provision of service; the invoice from Carpathia Hosting submitted to KPMG; and the invoice from MRV/VarTel submitted to KPMG all provide reasonable and corroborative justification for this finding, this finding should be dismissed.

KPMG RESPONSE

See KPMG's responses to each item noted below:

1. KPMG disagrees with the Beneficiary. When KPMG inquired about the $6,696 variance noted from the Beneficiary's G/L detail to the invoice billed by MSN Communications, Inc. (third party) to NTS, the below response was provided by the Beneficiary's cost consultant:

   "Attached is the original invoice. It appears that NTS increased the amount for billing to Gila River based on its business practices.

   Also, assuming that there will be a finding for the difference, should the finding only be for 1/3 of the difference, since the amount covers three years and was initially booked to a prepaid account?"

   Since the Beneficiary was unable to provide any underlying support for the costs incurred by NTS that are being recovered via this "mark-up," KPMG deemed the amount unreasonable. Also, KPMG notes that the FCC affiliate transaction rules contained in 47 C.F.R. Section 32.27 were enacted specifically to prevent mark-ups like these from being charged by non-regulated affiliates to regulated carriers. From the inception of the common cost allocation and affiliate transaction rules, the FCC has consistently disallowed the

inclusion of any profit element in affiliate transaction pricing, in fact acknowledging that the cost allocation standards already permit a return on investment to be included in the cost to be apportioned.[3]

2. KPMG disagrees with the Beneficiary. Any carrying charges should be based on Fully Distributed Costs incurred specifically in support of the service provided to the regulated carrier versus an arbitrary carrying cost that is not supported. Since KPMG could not get comfort around the annual two percent General and Administrative carrying charge, the entire amount was disallowed.

3. KPMG disagrees with the Beneficiary. The contract provided to KPMG on April 5, 2017 was only signed and dated by Alluvion. There was no signature or date noted by AGL Networks, LLC (the third party). Thus, the agreement was not fully executed, however KPMG did allow this documentation as support for the transaction. In regards to the support provided by the Beneficiary pertaining to a $250,000 8 Channel DWDM System, 1 10G, 1 OC48, 6 waves future - 5 year support offer: the total amount per the support provided totaled $263,000 and thus did not equal $250,000 and included $50,000 of support costs that should have been amortized, as three of the five years had lapsed as of December 31, 2013. Therefore, KPMG deemed the support pertaining to a $250,000 8 Channel DWDM System, 1 10G, 1 OC48, 6 waves future - 5 year support offer as unreasonable and disallowed the $2,083 per month equipment charge.

Finding # HC2016BE017-F03: 47 C.F.R. Section 32.2423(a) - Misclassified Assets

CONDITION

The Beneficiary made twelve-month periods ended December 31, 2013, March 31, 2014, June 30, 2014, and September 30, 2014 cost study adjustments to reclassify software costs from Account 2690 – Intangibles to Account 2423 – Buried Cable, along with the corresponding accumulated depreciation and depreciation expense. These software costs were reclassified to Account 2423 – Buried Cable without an analysis being performed to determine whether any portion of the software costs were related to C&WF functions and thus appropriately classified as C&WF. Further, these software assets were amortized over a three-year period – when the software was reclassified to C&WF, depreciation was not adjusted to reflect the C&WF buried cable depreciation rate of 6% as approved by the Gila River Indian Community. See below for the following overstatements to C&WF and understatements to Intangibles for the twelve-month periods impacting the various ICLS and HCL Forms:

Asset Account	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
2423 – Buried Cable	$ 326,256	$ 326,256	$ 326,256	$ 326,256
2690 – Intangibles	($ 326,256)	($ 326,256)	($ 326,256)	($ 326,256)

AD Account	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
3100 – Buried Cable	$ 248,439	$ 262,430	$ 276,422	$ 290,413
3500 – Intangibles	($ 248,439)	($ 262,430)	($ 276,422)	($ 290,413)

[3] *See Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities et al.*, Order on Reconsideration, CC Docket No. 86-111, 2 FCC Rcd 6283, 6293, para. 91 (1987) ("[The Commission] established rules for the transfer of assets and the provision of services between carriers and their affiliates. The affiliate transactions rules are intended to prevent cost shifting by means of improper transfer pricing."); *id.* at 6293-98, paras. 91-138 (discussing further revisions and clarifications to the affiliate transactions rules); *see also Costs of Regulated Telephone Service from Costs of Nonregulated Activities*, CC Docket No. 86–111, Report and Order, 2 FCC Rcd 1298 (1987) (establishing rules to separate the costs of providing regulated telecommunications services from the costs of providing nonregulated products and services).

DE Account	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
6560 – Buried Cable	$ 55,965	$ 55,965	$ 55,965	$ 60,629
6560 – Intangibles	($ 55,965)	($ 55,965)	($ 55,965)	($ 60,629)

CAUSE

The Beneficiary did not have a review process over cost study adjustments to ensure the reclassifications were appropriate and in accordance with FCC Rules and Orders.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $49,691 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 50,669	$ 50,669
ICLS	($ 978)	($ 978)
Total	**$ 49,691**	**$ 49,691**

RECOMMENDATION

The Beneficiary should document their analysis performed to determine that software costs directly relate to C&WF assets, and depreciation should be computed in accordance with FCC Rules and Orders for the entirety of the C&WF asset balances based on approved C&WF depreciation rates. Also, the Beneficiary should ensure all cost study adjustments are appropriate and in accordance with FCC Rules and Orders.

BENEFICIARY RESPONSE

> The Beneficiary disagrees with the following KPMG statement, "These software costs were reclassified to Account 2423 – Buried Cable *without an analysis being performed to determine whether any portion of the software costs were related to C&WF functions and thus appropriately classified as C&WF*." By definition, design, and purpose the software under consideration in this finding pertains to MAPCOM and CADTEL Systems. MAPCOM's website states the following,
>
> > *"Simply put, we help communications providers manage their workforce, as well as fiber, coax, wireless and copper networks".*
>
> GRTI purchased MAPCOM software for the purpose of assisting GRTI in OSP tracking and management.
>
> In addition, CADTEL offers the following excerpt from its website:
>
> > *"With more than 20 years of experience in Outside Plant (OSP) Management, CADTEL continues to be the leader in OSP Engineering tools for fiber, coax and copper networks CADTEL's SpatialBASE /SpatialENGINEER platform provides the most comprehensive set of OSP engineering functionality available to the modern communications engineer. Design. Build. Analyze. Report. Maintain. CADTEL's suite of OSP solutions provide all the capabilities necessary to create and maintain a successful and efficient OSP network."*
>
> Similarly, GRTI purchased CADTEL software for the design and implementation of its OSP network. These software costs relate solely to C&WF functions, contrary to KPMG's false statements.

Furthermore, the Beneficiary disagrees with KPMG's determination that the software was inappropriately classified as C&WF. In the Beneficiary's opinion, OSP/copper/fiber management software should be recorded to the account associated with its underlying function. *Part 32.2(b) specifically states, for example, "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." Part 32.2(e) goes on to state, "These accounts, then, are intended to reflect a functional and technological view of the telecommunications industry. This view will provide a stable and consistent foundation for the recording of financial data." It is in this light and these rules that the Beneficiary draws its basis for its conclusions.*

Ultimately, the Beneficiary relied upon what it believed was the intent of Part 32 in deciphering where to record these software items: Part 32.2000(i) states, *"Accounting for software. The original cost of initial operating system software for computers shall be classified to the same account as the associated hardware whether acquired separately or in conjunction with the associated hardware."* What differentiates the software in this finding from the Metaswitch software finding above is the estimated useful life of the software. Mapping systems are outside plant-related, and C&WF plant of this nature clearly has a longer estimated useful life, thus necessitating the cost study adjustment.

The Beneficiary does agree with KPMG that the depreciation expense should have been adjusted from its calculated rate of approximate 17% ($55,965 / $326,256) to 6%. Under this calculation, depreciation expense would have been $19,575 instead of $55,965, or a reduction of $36,390. The Beneficiary therefore suggests the finding should be $24,084 for HCLS and, using the same ratio in KPMG's monetary effect summary, ($465) for ICLS (-$978 / $50,669 x $24,084).

KPMG RESPONSE

KPMG consulted with USAC and the FCC in regards to the treatment of the CADTEL and MAPCOM software. The Beneficiary should not have allocated the entire balances of $167,881 for the CADTEL software and $158,375 for the MAPCOM software to Account 2423 – Buried Cable, as these items appear to be network support costs. Since the Beneficiary did not perform a detailed analysis in order to determine how much of the software cost should be allocated to Account 2423 – Buried Cable, the entire amount of the cost study adjustment, including the depreciation expense, was deemed unreasonable. Additionally, KPMG notes the Beneficiary's stance on this finding is inconsistent with the viewpoint presented in HC2016BE017-F01 above.

Finding # HC2016BE017-F04: 47 C.F.R. Section 54.320(b) - Lack of Documentation: Assets

CONDITION

For four of the 38 asset samples tested, adequate supporting documentation, outside of a work order summary, could not be provided to validate CPR asset balances resulting in the following overstatements for the twelve-month periods impacting the various ICLS and HCL Forms:

Asset Account	Asset Category	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
2212 – Digital Electronic Switch	4.13	$ 32,277	$ 32,277	$ 32,277	$ 32,277
2232 – Circuit Equipment Subscriber	4.13	$ 47,530	$ 47,530	$ 47,530	$ 47,530
2232 – Circuit Equipment Optical	4.11 & 4.13	$ 48,843	$ 48,843	$ 48,843	$ 48,843
2441 – Conduit Systems	1	$ 213,714	$ 213,714	$ 213,714	$ 213,714
Total		**$ 342,364**	**$ 342,364**	**$ 342,364**	**$ 342,364**

In addition, we identified four other assets where supporting documentation was not available and performed alternative procedures by selecting a similar asset of make, model and time period and obtained and reviewed underlying documentation to substantiate the original cost of the original asset selected for sampling.

CAUSE

The Beneficiary did not have adequate documentation retention policies to validate the existence of assets posted to the G/L. Due to the lack of a comprehensive audit trail, there was a significant lag of up to four months between the support request date and the date on which the Beneficiary provided the items requested. In addition, there were inconsistencies in the format of the support provided for assets that were similar in nature.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $47,251 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 41,177	$ 41,177
ICLS	$ 6,074	$ 6,074
Total	**$ 47,251**	**$ 47,251**

RECOMMENDATION

The Beneficiary should enhance controls to develop a comprehensive audit trail in support of assets included in the CPRs, and ensure all supporting documentation is retained in accordance with applicable FCC Rules and Orders.

BENEFICIARY RESPONSE

> GRTI was unable to provide support documentation for four assets identified in KPMG's audit finding list. These were part of the initial assets list of twenty eight. Due to a couple of key factors (billing software was decommissioned in 2011, for example), it was discussed early on with KPMG that if we reached twenty of the twenty eight asset selections that would satisfy the audit requirement, and/or alternative procedures could be implemented (KPMG never implemented alternative procedures, after GRTI agreed to this approach). Due to the complexity and unique nature of the situation, KPMG would consider this a good faith effort by GRTI.
>
> KPMG also indicated that if there was a variance in what was verbally agreed upon for the number of sub-selections completed, the remaining asset test selections would be referenced only in a Management Letter as a recommendation for document retention, and not a monetary finding. On a call with KPMG on February 14, it was stated that the unsupported asset selections was now going to be a monetary finding, after a few months of indicating that would not be the case. In review of the original asset selections, GRTI

completed $9,529,828 of $9,872,193, which calculates a percentage of 96.5%. In addition, two of the four identified as a finding in this report were submitted in March and were not taken off of the report. If these items were included in the report that percentage would have increased to 99.2%. Per oral agreement with KPMG, GRTI not only met but exceeded the twenty asset selections that was the audit requirement; completed a high percentage of the asset selections; and therefore believe that in good faith this finding should be removed.

GRTI would also like to express its frustration that on multiple occasions, not only was KPMG's responsiveness overwhelmingly lacking but also the same information was requested several different times. For example, there were questions answered expeditiously by GRTI and it took KPMG months in some cases to ask a follow up question (see Exhibits 3; 6). In turn, GRTI relayed this frustration to both KPMG and USAC on several occasions in an effort to provide recommendations to improve the process. GRTI believes much of this correspondence "fell on deaf ears" as the audit spanned from August 4th 2016 to present (see Exhibits 4 & 5). With the above-described circumstances and good faith effort on the part of GRTI, we believe this finding should be dismissed. If USAC disagrees with GRTI's request to dismiss this audit finding, GRTI would like to respectfully request an additional six weeks to locate this information.

KPMG RESPONSE

KPMG disagrees with the Beneficiary's response. There were two separate asset data requests: the initial data request consisting of 28 asset sample selections and an additional data request consisting of 10 asset sample selections. KPMG attempted to work with the Beneficiary to perform alternative procedures for the initial data request of 28 assets. As mentioned above this correspondence took place in February 2017 (five months after the initial data request) due to the Beneficiary only providing support for 18 of the 28 asset samples after five months. The alternative procedures mentioned above related only to the assets noted in the initial data request and the Beneficiary was only able to provide complete and accurate support for 20 of the 28 asset samples. KPMG was able to perform alternative procedures for four of the remaining assets, however due to data limitations we were unable to perform alternative procedures for the other four assets as the Beneficiary could not provide enough underlying support documentation to enable KPMG to locate similar make and model assets in the dataset. Therefore, the conditions under which alternative procedures could reasonably be performed were not met by the Beneficiary resulting in findings for the remaining four assets.

KPMG would like to note that the Beneficiary did provide support for all of the assets noted in the additional data request with no exceptions noted. However, providing support for these assets were not part of the alternative procedure thresholds noted above.

Finding # HC2016BE017-F05: 47 C.F.R. Section 36.121(c) - Miscategorized Central Office Equipment

CONDITION

The Beneficiary incorrectly calculated COE power and common allocations due to a formula error for the twelve-month periods ended December 31, 2013, March 31, 2014 and September 30, 2014. The allocations were performed correctly for the twelve-month period ended June 30, 2014. Due to the incorrect allocations, the below COE categorization differences were noted:

COE Categorization	Difference December 31, 2013	Difference March 31, 2014	Difference September 30, 2014
COE Category 3 - Local Switching	$ 21,950	$ 43,900	$ 1,172
COE Category 4.11 - Wideband MSG Circuit Equipment	($ 85,968)	($ 171,936)	($ 15,283)
COE Category 4.13 - Basic Exchange Circuit Equipment	$ 62,698	$ 125,397	$ 14,033
COE Category 4.22 – Wideband	$ 1,319	$ 2,640	$ 77

CAUSE

The Beneficiary did not have processes in place to review the accuracy of power and common allocations for COE assets.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $10,809 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 9,010	$ 9,010
ICLS	$ 1,799	$ 1,799
Total	**$ 10,809**	**$ 10,809**

RECOMMENDATION

The Beneficiary should enhance its preparation, review and approval processes and retain adequate documentation over COE asset categorizations to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

> The beneficiary agrees with this finding. The beneficiary and its cost consultant will continue working to perform its review and approval processes to the best of their abilities related to the proper allocation of central office power & common equipment.

Finding # HC2016BE017-F06: 47 C.F.R. Section 54.320(b) - Lack of Documentation: Expenses

CONDITION

For five of the 59 expense samples tested, supporting documentation could not be provided for the amount recorded in the G/L. This resulted in the following overstatements for the twelve-month periods impacting the various ICLS and HCL Forms:

Account	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
6422 – Underground Cable Expense	$ 6,486	$ 6,486	$ 6,486	$ -
6423 – Buried Cable Expense	$ 8,283	$ 8,283	$ 8,283	$ 8,283
6620 – Customer Service Expense	$ -	$ 43,082	$ 43,082	$ 43,082
6720 – General and Administrative Expense	$ 11,017	$ 11,017	$ -	$ -
Total	**$ 25,786**	**$ 68,868**	**$ 57,851**	**$ 51,365**

As the Beneficiary exceeded the allowable threshold on the HCP Forms for Corporate Operations Expenses, the $11,017 recorded to General and Administrative Expense (Account 6720) in this finding did not impact HCP disbursements.

Briefing book excludes all materials discussed in Executive Session.

CAUSE

The Beneficiary did not have adequate documentation retention policies to validate the accuracy and existence of expenses posted to the G/L.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $5,481 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 2,146	$ 2,146
ICLS	$ 3,335	$ 3,335
Total	**$ 5,481**	**$ 5,481**

RECOMMENDATION

The Beneficiary should enhance controls to ensure all supporting expense documentation is retained in accordance with applicable FCC Rules and Orders.

BENEFICIARY RESPONSE

The Beneficiary notes that in accordance with the above finding, only one of these amounts and accounts match to what KPMG has outlined. The Beneficiary has provided details on the items believed to be outstanding. It is furthermore the Beneficiary's understanding that all but one of the G/L account numbers/amounts KPMG has listed do not coincide with any expense items requested in either the original or additional expense requests.

Documentation was provided multiple times for each of the below items, however KPMG seemingly didn't understand or neglected to acknowledge the support provided:

	GL ACCOUNT	GL ACCOUNT DESCRIPTION	JOURNAL	JE ENTRY DATE	JOURNAL ENTRY DETAIL DESCRIPTI	DEBIT AN	CREDIT AI	TOTAL
2	6212.0000	DIGITAL ELECT EXPENSE	1044	4/30/2013	CORRECT PPD AMORT	0.00	5356.76	(5,356.76)
16	6423.0000	BURIED CABLE EXPENSE	1054	11/30/2013	NOV PAYROLL BENEFIT CLEARING	8282.93	0.00	8,282.93
17	6721.0000	ACCOUNTING & FINANCE EXPENSE	1051	8/31/2013	PREPAID INSURANCE ALLOCATION	9131.18	0.00	9,131.18
29	6721	ACCOUNTING & FINANCE EXPENSE	1042	5/24/2013	PR BENEFIT CLEARING	5802.86	0	5,802.86

Item #2 – The beneficiary provided amortization schedules detailing this journal entry correction. Documentation was provided in November 2016.

Item #16 – The beneficiary first provided journal entry documentation. This was a manual journal entry and as such did not have automated reports available, which is what KPMG was requesting. As KPMG stated several times during the course of the audit that they could implement alternative procedures to satisfy their audit program, KPMG requested in the instant case that the beneficiary provide the payroll benefit distribution reports for a different month, similar to the original request, and that this would suffice. The beneficiary provided benefit reports for November 2013 as this was an automated labor and benefit distribution process. These were provided to KPMG in January 2017.

Item #17 – The beneficiary provided the prepaid amortization and reconciliation worksheets to support this journal entry in November 2016. Much later in the audit process KPMG requested the insurance invoices which made up the prepaid insurance balance at that time. Due to the laps of time as well as additional, more pressing requests, the beneficiary did not continue with this item.

Item #29 – The beneficiary first provided journal entry documentation for this item. Similar to above, this was a manual journal entry and did not have automated reports available, which is what KPMG was requesting. As KPMG stated several times during the course of the audit that they could implement alternative procedures to satisfy their audit program, KPMG requested in the instant case that the beneficiary provide the payroll benefit distribution reports for a different month, similar to the original request, and that this would suffice. The beneficiary provided benefit reports for May 2013 via its automated labor and benefit distribution process. These were provided to KPMG in January 2017.

Given the above explanations, as well as supporting documentation and items submitted via alternative procedures in accordance with KPMG's allowance and approval, the Beneficiary believes this finding should be dismissed.

KPMG RESPONSE

See KPMG's responses to each item noted below:

Item #2: KPMG disagrees with the Beneficiary. As noted above the only support provided to KPMG was an amortization schedule for this expense transaction. KPMG requested the third party invoice supporting the total amount billed to the Beneficiary in order to ensure the amounts noted in the amortization schedule prepared by the Beneficiary were reasonable. KPMG's request for the third party invoice was noted as an open item in our data request file provided to the Beneficiary in conjunction with our weekly status meetings starting in November 2016 and such invoice was never provided to KPMG.

Items #16 and #29: KPMG disagrees with the Beneficiary. As noted above, the only support provided to KPMG for these two items were system generated journal entries and benefit clearing reports. On multiple occasions throughout the audit and during our weekly status calls, the Beneficiary ensured KPMG that they had additional support for the benefit amounts, however this data was never provided to KPMG. The additional support request was noted as an open item in our data request file provided to the Beneficiary in conjunction with our weekly status meetings starting in November 2016.

Item #17: The Beneficiary agrees with this finding, thus KPMG has no additional response for this item.

Finding # HC2016BE017-F07: 47 C.F.R. Section 54.7 and *All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, WC Docket Nos. 10-90, 14-58, Public Notice, 30 FCC Rcd 11821 (2015) - Misclassified Expenses

CONDITION

The Beneficiary inappropriately recorded employee tuition reimbursement expenses to regulated accounts. This resulted in the following overstatements for the twelve-month periods impacting the various ICLS and HCL Forms:

Account	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
6535 – Engineering Expense	$ 631	$ 631	$ 1,255	$ 624
6623 – Customer Service Expense	$ 12,212	$ 11,552	$ 10,153	$ 4,950
6720 – General and Administrative Expense	$ -	$ 4,420	$ 8,840	$ 13,240
Total	**$ 12,843**	**$ 16,603**	**$ 20,248**	**$ 18,814**

As the Beneficiary exceeded the allowable threshold on the HCP Forms for Corporate Operations Expenses, the amounts recorded to General and Administrative Expenses (Account 6720) in this finding did not impact disbursements.

CAUSE

The Beneficiary did not have adequate preparation, review and approval processes governing the recording of expenses in regulated versus non-regulated accounts. The Beneficiary inappropriately recorded these expenses in regulated accounts and included them on the HCP Forms.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $2,657 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 461	$ 461
ICLS	$ 2,196	$ 2,196
Total	**$ 2,657**	**$ 2,657**

RECOMMENDATION

The Beneficiary should enhance the preparation, review and approval processes to properly identify, account for and allocate expenses to regulated and non-regulated activities and expense accounts for reporting in the HCP Forms in accordance with FCC Rules and Orders.

BENEFICIARY RESPONSE

The Beneficiary disagrees with this finding for three reasons:

1. IRS Publication 970, Chapter 11, specifically allows employer-provided tuition assistance as a fringe benefit.
2. In addition, KPMG did not provide any evidence or documentation related to why this benefit is disallowed, and did not discuss or provide evidence to the beneficiary of the FCC rule citation that requires this benefit to be disallowed for regulated cost recovery purposes.
3. Lastly, USAC provides this benefit to its employees, and since USAC's annual budget is funded from the USF, there is currently evidence showing or pointing to the fact that tuition assistance is allowed to be reimbursed from USF funding mechanisms.

KPMG RESPONSE

KPMG consulted with USAC in regards to Beneficiaries recording employee tuition expenses in regulated accounts. These expenses were not to be recorded in regulated accounts pursuant to the FCC's Public Notice in WC Docket Nos. 10-90 and 14-58 which clarified existing FCC Rules and Regulations. The Public Notice was provided to the Beneficiary's cost consultant on October 13, 2016. Additionally, KPMG notes the IRS Publication cited, while informative, has no bearing on the treatment of tuition expenses for High Cost Program support purposes.

Finding # HC2016BE017-F08: 47 C.F.R. Section 32.2000(e)(2) and (3) - Inaccurate Continuing Property Records

CONDITION

The Beneficiary improperly included a $12,376 COE asset that was retired in 2012 in the twelve-month periods ended December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014 CPR balances. Additionally, we noted that the account balances per the COE CPRs did not reconcile to the corresponding COE balances noted on the TB, with the CPRs serving as the primary source of record even though they are unaudited. See below for the cost study adjustments made by GRTI in order to get the COE CPRs to tie-out to the TB for the twelve-month periods

impacting the various ICLS and HCL Forms:

Accounts	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
2230 - COE Transmission	$ 3,442,813	$ 3,451,118	$ 3,544,750	$ 3,544,750
2210 - COE Switching	($ 3,442,813)	($ 3,451,118)	($ 3,544,750)	($ 3,544,750)
3100 (2230) – AD (COE Transmission)	($ 1,692,364)	($ 2,312,221)	($ 2,574,554)	($ 2,645,444)
3100 (2210) – AD (COE Switching)	$ 1,692,364	$ 2,312,221	($ 2,574,554)	$ 2,645,444

CAUSE

The Beneficiary did not have processes in place to accurately review the period end CPRs to ensure retired assets were removed from the balance and that the CPR account balances agreed with the corresponding balances noted on the TB.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an over-disbursement of $941 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	$ 629	$ 629
ICLS	$ 312	$ 312
Total	**$ 941**	**$ 941**

RECOMMENDATION

The Beneficiary should enhance its review processes over the accuracy of the period end CPR balances to ensure assets balances are properly reflected on the HCP forms.

BENEFICIARY RESPONSE

> The Beneficiary agrees with this finding. The Beneficiary and its cost consultant will continue working to complete timely reviews and institute additional review procedures of the CPRs to ensure proper accounting for retirements of equipment that are no longer in service.

Finding # HC2016BE017-F09: 47 C.F.R. Section 36.121(c) - Inaccurate Categorization Factor

CONDITION

The Beneficiary utilized an inaccurate number of Category 1.3 loops when calculating wideband allocation factors that impacted the COE Category 4.13 and C&WF Category 1 amounts reported for the twelve-month periods ended December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014.

Twelve-month Period Ended	Category 1.3 Loops		Difference
	Loops Used	Actual Loops	
December 31, 2013	3,734	3,724	10
March 31, 2014	3,734	3,790	(56)
June 30, 2014	3,768	3,769	(1)
September 30, 2014	3,710	3,760	(50)

This resulted in the following COE Category 4.13 and C&WF Category 1 variances for the twelve-month periods impacting the various ICLS and HCL Forms:

COE and C&WF Categorization	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
COE Category 4.13	$ 982	($ 10,825)	($ 197)	($ 9,057)
C&WF Category 1*	$ 3,666	$ 3,666	$ 3,666	$ 3,666

*KPMG noted GRTI used the same Category 1 average of $35,314,743 for the twelve-month period ended December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014 HCL filings. Therefore, the variance amount of $3,666 was the same for the 2014-1, 2014-2, 2014-3 and 2014-4 HCL filings.

CAUSE

The Beneficiary did not have processes in place to review the accuracy of total Category 1.3 Loops used in the wideband allocations for COE and C&WF assets, resulting in the incorrect reporting of categorizations of COE and C&WF assets.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an under-disbursement of $1,033 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	($ 1,061)	($ 1,061)
ICLS	$ 28	$ 28
Total	**($ 1,033)**	**($ 1,033)**

RECOMMENDATION

The Beneficiary should enhance its preparation, review and approval processes over the reporting of COE and C&WF asset categorizations, including wideband allocations, and retain the necessary documentation to ensure compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

> The Beneficiary agrees with this finding. The Beneficiary inadvertently misreported access line counts from their underlying source document, which ultimately flowed into the COE and C&WF asset categorizations. The Beneficiary will enhance its review and reporting process of line counts from their original source to high cost filings.

Finding # HC2016BE017-F10: 47 C.F.R. Section 36.611(h) - Inaccurate Loop Counts

CONDITION

The Total Loops, Category 1.3 Loops, and Access Lines submitted on the HCP Forms did not reconcile to underlying source documentation as follows:

2013 Form 507	Reported	Actual	Difference
Total Access Lines	3,719	3,709	10

2014-1 HCL Form	Reported	Actual	Difference
Category 1.3 Loops	3,734	3,724	10
Total Loops	3,746	3,736	10

2014-2 HCL Form	Reported	Actual	Difference
Category 1.3 Loops	3,788	3,790	(2)
Total Loops	3,800	3,802	(2)

2014-3 HCL Form	Reported	Actual	Difference
Category 1.3 Loops	3,768	3,769	(1)
Total Loops	3,780	3,781	(1)

2014-4 HCL Form	Reported	Actual	Difference
Category 1.3 Loops	3,769	3,760	9
Total Loops	3,781	3,772	9

CAUSE

The preparation, review and approval processes over line counts for the 2014-1, 2014-2, 2014-3, and 2014-4 HCL Forms and FCC Form 507 filings did not detect the submission of inaccurate line count and loop information.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 is estimated as an under-disbursement of $1,667 and is summarized by support mechanism as follows:

Support Type	Monetary Effect	Recommended Recovery
HCL	($ 1,667)	($ 1,667)
Total	($ 1,667)	($ 1,667)

RECOMMENDATION

The Beneficiary should enhance its preparation, review and approval processes over the reporting of appropriate line count data, including the performance of a reconciliation of all line count data to underlying support documentation to ensure amounts are reported in HCP filings in compliance with FCC Rules and Orders.

BENEFICIARY RESPONSE

The Beneficiary agrees with this finding. The Beneficiary inadvertently misreported access line counts from their underlying source document. The Beneficiary will enhance its review and reporting process of line counts from their original source to high cost filings.

Finding # HC2016BE017-F11: 47 C.F.R. Section 32.6512(b) - Improper Distribution of Overhead Amounts

CONDITION

For the twelve-month periods ended December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014, the Beneficiary utilized fixed percentages in order to determine the provisioning expense allocations, rather than using direct material costs. The Beneficiary could not provide an explanation or documentation to support how the percentages were determined. In the sample month tested, November 2013, the Beneficiary allocated provisioning expense as follows:

Account	Amount
2003 – Telecommunications Plant Under Construction	$ 5,159
6212 – Digital Electronic Expense	$ 1,299
6535 – Engineering Expense	$ 1,948
6728 – General and Administrative	$ 2,595
1197 - Due To/From GRAM	$ 1,299
1198 - Due To/From NTS	$ 688
6512 – Provisioning Expense	($ 12,988)

CAUSE

The Beneficiary did not have adequate preparation, review and approval processes to evaluate the proper allocations of provisioning expenses necessary to the provision of HCP supported services in the HCP Forms.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2015 could not be determined, as the Beneficiary was unable to provide sufficient documentation for the material costs in order to recalculate the provisioning expense allocations.

RECOMMENDATION

The Beneficiary should develop and implement procedures to review overhead allocations and to ensure these allocations are determined in accordance with FCC Rules and Orders.

BENEFICIARY RESPONSE

The Beneficiary agrees with this finding and will continue to review overhead allocations to ensure they comport to FCC rules and regulations.

CRITERIA

Finding	Criteria	Description
#1, #3	47 C.F.R. Section 32.2000(g)(2)(i) (2013)	"A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges."
#1	47 C.F.R. Section 32.2000(g)(2)(iii) (2013)	"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. Section 32.2000(g)(1)(i) and (iii) (2013)	"Unless otherwise provided by the Commission, either through prior approval or upon prescription by the Commission, depreciation percentage rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property. (iii) The company shall keep such records of property and property retirements as will allow the determination of the service life of property which has been retired, or facilitate the determination of service life indications by mortality, turnover, or other appropriate methods..."
#2	47 C.F.R. Section 32.27(c)(2) (2013)	"*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."
#2	47 C.F.R. Section 64.901(a) and (b)(2), (3) (2013)	"Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein.... Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. 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:

Finding	Criteria	Description
		(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 based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities."
#2, #4, #6, #8, #11	47 C.F.R. Section 54.320(b) (2013)	"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, #4, #6, #8, #11	47 C.F.R. Section 32.12(b) (2013)	"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."
#3	47 C.F.R. Section 32.2423(a) (2013)	"This account shall include the original cost of buried cable as well as the cost of other material used in the construction of such plant. This account shall also include the cost of trenching for and burying cable run in conduit not classifiable to Account 2441, Conduit Systems..."
#3	47 C.F.R. Section 32.2690(a) (2013)	"This account shall include the cost of organizing and incorporating the company, the original cost of government franchises, the original cost of patent rights, and other intangible property having a life of more than one year and used in connection with the company's telecommunications operations."
#4, #8	47 C.F.R. Section 32.2000(e)(2) and (3) (2013)	"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. 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 ..."
#5, #9	47 C.F.R. Section 36.121(c) (2013)	"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

Finding	Criteria	Description
		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."
#7	47 C.F.R. Section 54.7(a) (2013)[4]	"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."
#7	*All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, WC Docket Nos. 10-90, 14-58, Public Notice, 30 FCC Rcd 11821 (2015)	"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'...[T]he *non-exhaustive* list of expenditures that are not necessary for the provision of supported services and therefore may not be recovered through universal service support [includes]: Gifts to Employees; and Personal expenses of employees."
#8	47 C.F.R. Section 32.2000(e)(4) (2013)	"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."
#10	47 C.F.R. Section 36.611 (2013)	"In order to allow determination of the study areas and wire centers that are entitled to an expense adjustment pursuant to §36.631, each incumbent local exchange carrier (LEC) must provide the National Exchange Carrier Association (NECA) (established pursuant to part 69 of this chapter) with the information listed for each study area in which such incumbent LEC operates, with the exception of the information listed in paragraph (h) of this section, which must be provided for each study area... This information is to be filed with NECA by July 31st of each year..."

[4] *See also* 47 U.S.C. § 254(e).

Finding	Criteria	Description
#10	47 C.F.R. Section 36.611(h) (2013)	"For incumbent local exchange carriers subject to § 36.601(a) this subpart, the number of working loops for each study area. For non-rural telephone companies, the number of working loops for each study area and for each wire center. For universal service support purposes, working loops are defined as the number of working Exchange Line C&WF loops used jointly for exchange and message telecommunications service, including C&WF subscriber lines associated with pay telephones in C&WF Category 1, but excluding WATS closed end access and TWX service. These figures shall be calculated as of December 31st of the calendar year preceding each July 31st filing."
#11	47 C.F.R. Section 32.6512(b) (2013)	"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."

CONCLUSION

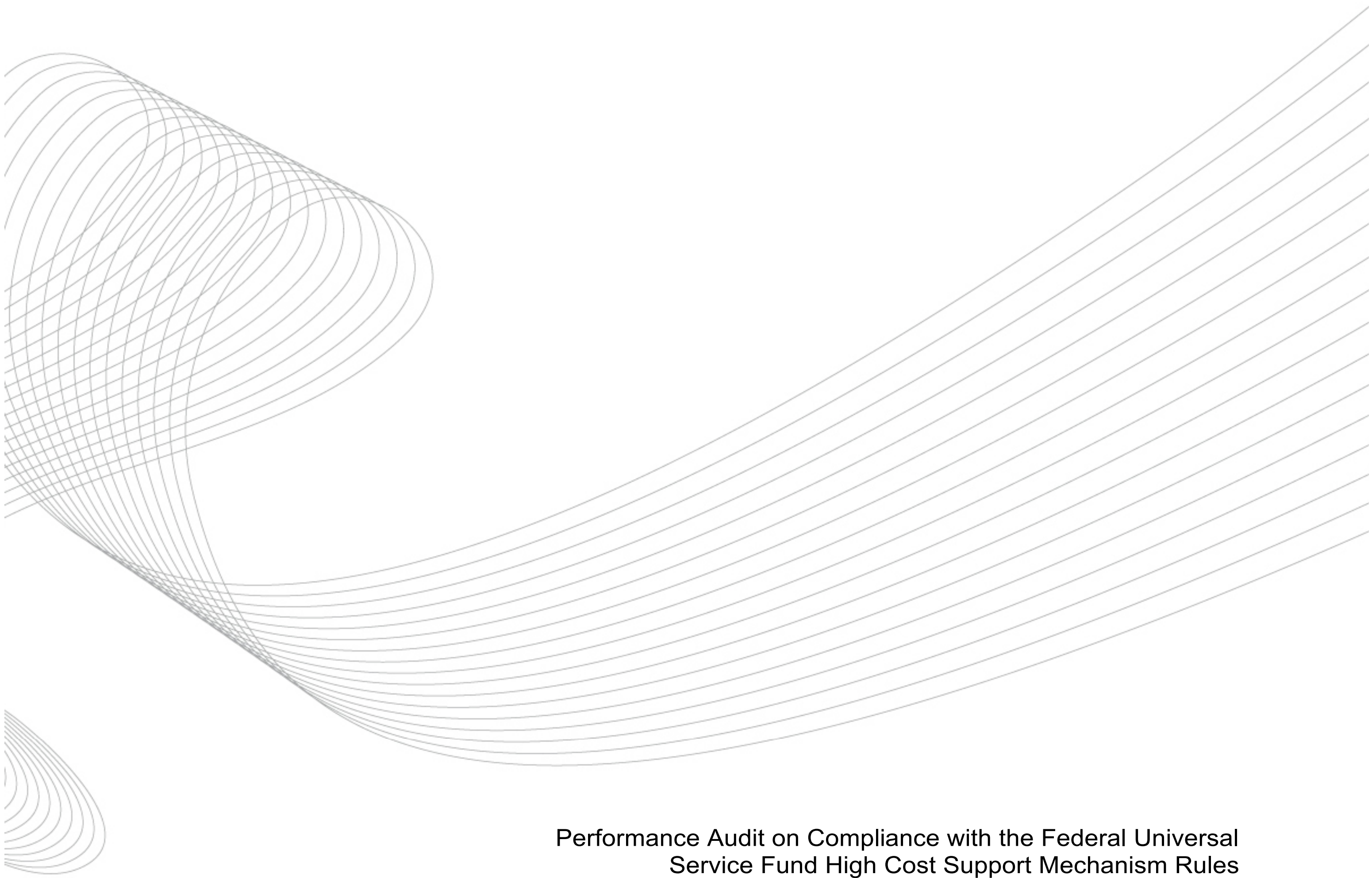
KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 applicable to the disbursements made from the HCP during the twelve-month period ended December 31, 2015 identified inaccurate depreciation calculation, improper affiliate transactions, miscategorized assets, lack of documentation for assets and expenses, miscategorized Central Office Equipment, misclassified expenses, inaccurate Continuing Property Records, inaccurate categorization factor, inaccurate loop counts and improper distribution of overhead amounts findings. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

The combined estimated monetary impact of these findings is as follows:

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	$ 446,546
ICLS	$ 58,385
Total Impact	**$ 504,931**

KPMG recommends the Beneficiary:

- Enhance the preparation, review and approval processes governing the calculation of depreciation and the use of proper rates to ensure compliance with FCC Rules and Orders.
- Validate that affiliate transactions are supported and in accordance with FCC Rules and Orders.
- Review cost study adjustments to ensure allocations between regulated and non-regulated activities are accurate.
- Enhance document retention processes and polices related to assets and expenses to be in accordance with FCC Rules and Orders.
- Enhance preparation, review and approval processes governing the C&WF and COE categorization studies to ensure all power and common and wideband allocations are calculated correctly.
- Enhance CPR recordkeeping to contain sufficient detail to enable asset balances to be easily audited, tie to the audited financial statements and be up to date.
- Enhance preparation, review and approval processes to properly identify and account for regulated expenses in the HCP Forms.
- Perform a more effective review and reconciliation of historical line count and loop data between the source documentation and the HCP Forms prior to filing.
- Develop and document an overhead allocation process for Provisioning Expense in accordance with FCC Rules and Orders.



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

Copper Valley Telephone Company
USAC Audit ID: HC2016BE030
SAC No.: 613006

Disbursements Made During the Year Ended December 31, 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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EXECUTIVE SUMMARY

September 5, 2018

Universal Service Administrative Company
700 12th Street N.W., Suite 900
Washington, DC 20005

Attention: Ms. Telesha Delmar

This report represents the results of Moss Adams LLP's (we, us, our, and Moss Adams) work conducted to address the performance audit objectives relative to Copper Valley Telephone Company, Study Area Code (SAC) No. 613006, (Copper Valley or Beneficiary) for disbursements of $11,116,061 made from the Universal Service High Cost Program (HCP) (Disbursements) during the year ended December 31, 2015. At your request, we have also calculated the estimated monetary impacts of the issues identified in Finding #1 and Finding #2 on HCP disbursements during the years ended December 31, 2012, 2013, 2014, and 2016 based on information provided by the Beneficiary related to those findings.

We conducted our performance audit in accordance with the standards applicable to performance audits contained in generally accepted *Government Auditing Standards*, issued by the Comptroller General of the United States (2011 Revision). Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our 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 conclusions. We believe the evidence we have obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our performance audit does not provide a legal determination of the Beneficiary's compliance with specified requirements.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in of 47 C.F.R. Part 54, Subparts C, D, K, and M; Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B as well as the Federal Communications Commission's (FCC) Orders governing federal Universal Service Support for the HCP relative to the disbursements (collectively, the Rules).

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Based on the test work performed, our audit disclosed two detailed audit findings (Finding or Findings) discussed in the Audit Results section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the 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 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.

Moss Adams LLP

Overland Park, Kansas
September 5, 2018

Audit Results

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 64.901(a) and (b) – Incorrect nonregulated adjustments for rate base and expenses: The Beneficiary did not make proper nonregulated adjustments to remove cable and wire assets and the associated accumulated depreciation and depreciation expense from the regulated balance in its 2013 HCP filings. Additional work performed also indicates the Beneficiary did not make the proper nonregulated adjustments in its 2010, 2011, 2012, and 2014 HCP filings.	$(697,826)	$(697,826)
Finding #2: 47 C.F.R. § 36.2(c)(2) – Incorrect treatment of substantial rent expense paid to an affiliate: The Beneficiary incorrectly included $895,047 of rent expense paid to an affiliate in its 2013 HCP filings instead of properly removing the rent expense and including the rented plant and related expenses. Additional work performed also indicates the Beneficiary incorrectly included the affiliate rent expense and did not include the rented plant and related expenses in its HCP filings for the years 2010, 2011, 2012, and 2014. The 2010 HCP filings included $716,776 of affiliate rent expense. The 2011 HCP filings included $860,792 of affiliate rent expense. The 2012 HCP filings included $858,360 of affiliate rent expense. The 2014 HCP filings included $451,533 of affiliate rent expense.	$2,244,938	$2,244,938
Total Net Monetary Effect	**$1,547,112**	**$1,547,112**

USAC Management Response

USAC management concurs with the audit results and will seek recovery of the High Cost Program support amount noted in the chart below. USAC requests that the Beneficiary provide a detailed description of the policies and procedures implemented to address the findings no later than sixty (60) days after receipt of this audit report. Please submit the requested information to hcaudits@usac.org. The Beneficiary may be subject to further review if the Beneficiary does not provide the requested information to USAC.

	ICLS	LSS	HCLS	USAC Recovery Action
Finding #1	($152,607)	($13,331)	($531,888)	($697,826)
Finding #2	$516,831	$223,735	$1,504,372	$2,244,938
Mechanism Total	$364,224	$210,404	$972,484	$1,547,112

As a result of the audit, USAC management will recover $1,547,112 of High cost Program support from the Beneficiary for SAC 613006.

Background and Program Overview

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications exchange services, including local access, long distance, and Internet services to residential and business customers residing in areas of south central Alaska.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer 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 is the neutral administrator of the USF and may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The High Cost Program (HCP), a component of the USF, ensures that consumers in all less populated areas of the country have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. The HCP consists of the following support mechanisms:

- High cost loop support (HCLS): HCLS is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per loop. HCLS includes the following:
    - Safety net additive (SNA): SNA support is available for carriers that make significant investment in rural infrastructure in years when HCLS is capped and is intended to provide carriers with additional incentives to invest in their networks.
    - Safety valve support (SVS): SVS is available to rural carriers that acquire high cost exchanges and make substantial post-acquisition investments to enhance network infrastructure.
- High cost model (HCM): HCM support is available to carriers serving wire centers in certain states where the forward looking costs to provide service exceed the national benchmark.
- Local switching support (LSS): LSS was available to rural incumbent local exchange carriers (ILEC) serving 50,000 or fewer lines and is designed to help recover the high fixed switching costs of providing service to fewer customers. LSS was phased out June 30, 2012, and was replaced by the Connect America Fund (CAF) as of July 1, 2012.
- Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support was established in the *2011 Transformation Order* as part of the transitional recovery mechanism adopted to mitigate the effect of reduced intercarrier compensation revenues. CAF ICC is the universal service support available to cover the difference between the amount of recovery a carrier is eligible to receive and the amount it may recover through permitted end user charges. For rate-of-return incumbent LECs, the baseline recovery was established at a fixed amount in 2012 and is reduced by five percent annually.

CAF ICC disbursements began July 1, 2012.

- Interstate common line support (ICLS): ICLS is available to ILECs and is designed to help its recipients recover common line revenue requirement while ensuring the subscriber line charge (SLC) remains affordable to customers. The common line revenue requirement is related to facilities that connect end users to the carrier's switching equipment.
- Interstate access support (IAS): IAS is available to price-cap ILECs and competitive carriers, and is designed to offset interstate access charges.

Objective, Scope, and Audit Methodology

OBJECTIVE

The objective of our performance audit was to evaluate the Beneficiary's compliance with 47 C.F.R. Part 54, Subparts C, D, K, and M; Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B as well as the Federal Communications Commission's Orders governing Federal Universal Service Support for the HCP relative to the disbursements for the 12-month period ended December 31, 2015.

This performance audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards*. We were not engaged to, and do not render an opinion on the Beneficiary's internal control over financial reporting or internal control over compliance. We caution that projecting the results of our evaluation on future periods is subject to the risks that controls may become inadequate because of changes in conditions that affect compliance.

SCOPE

The following chart summarizes the Universal Service High Cost Program support that was included in the scope of this audit:

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2014-6/30/2015 & 7/1/2015-6/30/2016	12/31/2015	$462,366
High Cost Loop Support (HCLS)	12/31/2013	12/31/2015	$7,503,269
Interstate Common Line Support (ICLS)	12/31/2013	12/31/2015	$3,150,426
Total			**$11,116,061**

ADDITIONAL WORK

At USAC's request, we determined that the affiliate circuit rent expense and incorrect nonregulated adjustments that resulted in findings 1 and 2 were also present in the high cost forms filed for the three years prior to and the one year after the 2013 data period year. We did not perform any other procedures outlined in the audit methodology section for those other periods. The following charts summarize the Universal Service High Cost Program support relating to the incorrect treatment of substantial rent expense paid to an affiliate and incorrect nonregulated adjustments for the disbursement period years ended December 2012, 2013, 2014 and 2016.

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2012-6/30/2013	12/31/2012	$418,680
High Cost Loop Support (HCLS)	12/31/2010	12/31/2012	$7,704,933
Interstate Common Line Support (ICLS)	12/31/2010	12/31/2012	$3,423,258
Local Switching Support (LSS)	12/31/2010	12/31/2012	$597,312
Safety Net Additive Support (SNA)	12/31/2010	12/31/2012	$86,976
Total			**$12,231,159**

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2012-6/30/2013 & 7/1/2013-6/30/2014	12/31/2013	$233,814
High Cost Loop Support (HCLS)	12/31/2011	12/31/2013	$8,003,454
Interstate Common Line Support (ICLS)	12/31/2011	12/31/2013	$3,368,208
Local Switching Support (LSS)	12/31/2011	12/31/2013	($227,916)
Total			**$11,377,560**

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2013-6/30/2014 & 7/1/2014-6/30/2015	12/31/2014	$385,956
High Cost Loop Support (HCLS)	12/31/2012	12/31/2014	$7,941,204
Interstate Common Line Support (ICLS)	12/31/2012	12/31/2014	$3,087,846
Local Switching Support (LSS)	12/31/2012	12/31/2014	$0
Total			**$11,415,006**

HCSMP Support	Data Period	Disbursement Period	Disbursements
Connect America Fund (CAF) Intercarrier Compensation (ICC)	7/1/2015-6/30/2016 & 7/1/2016-6/30/2017	12/31/2016	$569,976
High Cost Loop Support (HCLS)	12/31/2014	12/31/2016	$5,896,762
Interstate Common Line Support (ICLS)	12/31/2014	12/31/2016	$3,014,721
Local Switching Support (LSS)	12/31/2014	12/31/2016	$0
Total			**$9,481,459**

AUDIT METHODOLOGY

To accomplish our audit objective, we performed the following procedures:

Reconciliation – We reconciled the December 31, 2013 and 2012, trial balances to the separations and Part 64 study inputs and then to the applicable HCP Forms, obtained explanations for any variances, and evaluated the explanations for reasonableness.

Rate Base and Investment in Network Facilities – We utilized an attribute sampling methodology to select asset samples from central office equipment (COE) and cable and wire facilities (CWF) accounts. Asset selections were made from continuing property record (CPR) detail. We determined that balances for the selected assets were properly supported by underlying documentation such as work order detail, third-party vendor invoices, materials used sheets, and time and payroll documentation for labor and related costs. We agreed the amounts charged to work order detail and verified the proper general ledger coding under Part 32. In addition, we verified the physical existence of selected assets.

Tax Filing Status – We verified the tax filing status for the Beneficiary and obtained and reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness.

Postretirement Benefit Liability Accounting – The Beneficiary does not have any postretirement benefit plans; therefore, no testing was performed.

Expenses – We utilized an attribute sampling methodology to select expense samples from operating expense accounts that impact HCLS, ICLS, and CAF ICC. Payroll selections were made from a listing of employees. We agreed the amounts to supporting documentation such as time sheets, labor distribution reports, and approved pay rates, and verified the costs were coded to the proper Part 32 account. We reviewed benefits and clearings for compliance with Part 32.

We made other disbursement selections from accounts payable transactions and agreed amounts to supporting documentation, reviewing for proper coding under Part 32. We selected a sample of manual journal entries to ensure reclassifications between expense accounts were appropriate and reasonable.

Affiliate Transactions – We performed procedures to assess the reasonableness of affiliate transactions that occurred during the period under audit. These transactions involved the provision of services between the Beneficiary and other entities with common ownership. We noted the Beneficiary holds equity ownership in four entities. These affiliates include Copper Valley Holdings, Inc. (100% ownership, "CV Holdings"), Copper Valley Wireless, LLC (100% ownership, "CV Wireless"), Copper Valley Long Distance, Inc. (100% ownership, "CVLD"), and Copper Valley Solutions, LLC (100% ownership, "CV Solutions"). We selected a sample of various types of transactions to determine if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and categorized in the appropriate Part 32 accounts.

The following transactions were selected for testing:

- Land and building rents – The Beneficiary rents office space from CV Wireless. Transactions occur at fully distributed cost.
- General support asset rents – The Beneficiary rents general support assets, including tools, work equipment, computers, furniture and other equipment from CV Wireless and CV Solutions. Transactions occur at fully distributed cost.
- Special access services – The Beneficiary pays for the use cable and wire plant assets controlled by CVLD to transport DSL traffic and to monitor its central offices. Transactions occur at CVLD's tariffed rates.
- Dark fiber leases – The Beneficiary leases dark fibers to CVLD. Transactions occur at fully distributed cost.

***Revenues and Subscriber Listings* -** We tested revenue general ledger accounts, subscriber bills, and other documentation to verify the accuracy and existence of revenues. We utilized an attribute sampling methodology to select revenue samples from subscriber listings. Our testing of subscriber bills consisted of procedures to ensure the lines were properly classified as residential, single-line business, or multi-line business. In addition, we reconciled the revenues reported to National Exchange Carrier Association (NECA) to the general ledger and billing support. We obtained subscriber listings and billing records to determine the lines or loops reported in the HCP filings agreed to supporting documentation. Our analysis included reviewing the listing for duplicate lines, invalid data, and nonrevenue producing lines.

Part 64 Allocations – We reviewed the Beneficiary's cost apportionment methodology and assessed the reasonableness of the allocation methods and corresponding data inputs used to calculate the factors, recalculated the material factors, and recalculated the material amounts allocated. We also evaluated the reasonableness of the assignment between regulated, nonregulated, and common costs and the apportionment factors as compared to the regulated and nonregulated activities performed by the Beneficiary.

COE and CWF Categorization – We reviewed the methodology for categorizing assets including a comparison to network diagrams. We reconciled the COE and CWF amounts to the cost studies and agreed them to the applicable HCP Forms. In addition, we reviewed power and common allocation and physically inspected a sample of COE assets and tested route distances of CWF for reasonableness.

Revenue Requirement – We recalculated the Beneficiary's revenue requirement using our cost allocation software program and reviewed the calculation of revenue requirement including the applications of Part 64, 36, and 69 for reasonableness. In addition, we traced cost study adjustments that were not recorded in the general ledger to supporting documentation and reviewed them for reasonableness.

Detailed Audit Findings

Our performance audit resulted in the following detailed audit findings and recommendations with respect to the Beneficiary's compliance with the Rules. We also included an estimate of the monetary impact of the findings relative to 47 C.F.R. Part 54, Subparts C, D, K, and M, Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B, as well as the Federal Communications Commission's (FCC) Orders governing federal Universal Service Support applicable to the disbursements made from the HCP during the year ended December 31, 2015.

FINDING No.: HC2016BE030-F01: 47 C.F.R. § 64.901 (a) and (b) – INCORRECT NONREGULATED ADJUSTMENTS FOR RATE BASE AND EXPENSES

Condition –
The Beneficiary made nonregulated adjustments for cable and wire assets by assigning the asset to a non-interstate category in its cost studies. However, the assets, accumulated depreciation, depreciation expense, and related maintenance expenses should have been removed from the cost studies and HCP filings.

Cause –
The processes to prepare, review, and approve the cost studies and HCP filings did not identify and remove the correct balances.

Effect –
The Beneficiary's approach to the nonregulated adjustments identified above, for the years 2012 – 2016 resulted in a lower allocation of rate base and expenses to the Part 36 interstate jurisdiction. This also resulted in a lower loop plant allocation in the HCLS filings. This resulted in an average annual increase in rate base of $1,793,551, an increase in depreciation expense of $629,836 and an increase in plant specific expenses of $257,003, which impacted HCLS, ICLS, and LSS. The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, and for the additional years for the 12-month periods ending December 31, 2012, 2013, 2014, and 2016 is estimated to be an underpayment of $697,826 and is summarized by support mechanism by disbursement period as follows:

Support Type	Monetary Effect - 2012	Monetary Effect - 2013	Monetary Effect - 2014	Monetary Effect - 2015	Monetary Effect - 2016	Total Monetary Effect
HCLS	$(19,160)	$(80,088)	$(153,200)	$(158,546)	$(120,894)	$(531,888)
ICLS	$(11,754)	$(29,780)	$(36,985)	$(38,747)	$(35,341)	$(152,607)
LSS	$(7,139)	$(6,192)	$0	$0	$0	$(13,331)

Recommendation –
The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for preparing, reviewing, and approving data reported in its HCP filings to ensure compliance with applicable FCC rules.

Beneficiary Response –
Beneficiary Copper Valley Telephone Cooperative, Inc. (CVTC) believes the approach taken, starting in 2005, to directly assign the asset to a non-interstate category in the cost study was a reasonable one. However, upon further review, it appears that the approach may not have properly handled the removal of the assets, accumulated depreciation, depreciation expense and maintenance expenses in the related HCP filings. CVTC accepts this finding and will incorporate the changes recommended by the auditor going forward.

FINDING No.: HC2016BE030-F02: 47 C.F.R. § 36.2(c)(2) – INCORRECT TREATMENT OF SUBSTANTIAL RENT EXPENSE PAID TO AN AFFILIATE

Condition –
The Beneficiary incorrectly included expense amount in the following years in accounts 6123, 6124, 6212 and 6232 for rent expense paid to an affiliate for the use of substantial interexchange plant assets controlled by its affiliate. The Beneficiary should have removed the rent expense and needed to include the rented interexchange plant and related expenses in its HCP filings in accordance with FCC rules.

Year	Total Expenses
2010	$716,776
2011	$860,792
2012	$858,360
2013	$895,047
2014	$451,533

Cause –
The processes to prepare, review, and approve the cost studies and HCP filings did not identify the affiliate transactions as substantial rents and the application of the requirements in 47 C.F.R. § 36.2(c)(2).

Effect –
The exception identified above, for the years 2010 – 2014, resulted in a reduction of plant specific expenses of $3,782,508, an average annual increase in rate base of $967,953 and an increase in depreciation expense of $329,831, which impacted HCLS, ICLS, and LSS disbursements. Specifically, the adjustment reduced expenses that were previously reported as switching expense, circuit expense, and general support expense and replaced these expenses with imputed digital subscriber line (DSL) special access rate base and associated depreciation expense. The reduction of circuit expense and the inclusion of non-loop imputed rate base in the Beneficiary's HCLS and ICLS HCP filings caused HCLS and ICLS disbursements to decrease. In addition, the reduction of switching and general support expenses and inclusion of imputed non-interexchange rate base in the Beneficiary's LSS HCP filings caused LSS disbursements to decrease.

The monetary impact of this finding relative to disbursements for the 12-month period ended December 31, 2015, and for the additional years for the 12-month periods ending December 31, 2012, 2013, 2014, and 2016 is estimated to be an overpayment of $2,244,938 and is summarized by support mechanism by disbursement period as follows:

Support Type	Monetary Effect - 2012	Monetary Effect - 2013	Monetary Effect - 2014	Monetary Effect - 2015	Monetary Effect - 2016	Total Monetary Effect
HCLS	$272,537	$270,586	$394,394	$399,863	$166,992	$1,504,372
ICLS	$107,943	$141,360	$104,279	$92,200	$71,049	$516,831
LSS	$126,968	$96,767	$0	$0	$0	$223,735

Recommendation –
The Beneficiary should implement policies and procedures to ensure it has an adequate system in place for preparing, reviewing, and approving data reported in its HCP filings to ensure compliance with applicable FCC rules.

Beneficiary Response –
As CVTC has stated multiple times since this issue was raised during the audit process, its subject expenses are not substantial rental expenses arising from an alleged (but, in fact, non-existent) sale and lease-back transaction, and are consequently not subject to the provisions of 47 CFR §36.2(c)(2). Rather, the underlying "transaction" is a bona fide arrangement required under Alaska law that consists of (a) the lease of dark fiber facilities by CVTC to its separate interexchange affiliate Copper Valley Long Distance, Inc. (CVLD); and (b) the purchase by CVTC of tariffed interexchange services provided by CVLD to CVTC and unrelated entities over some of the formerly dark fiber to which CVLD has added electronics. The tariffed charges for CVLD's interexchange services were properly treated by CVTC as expenses and were fully compliant with the FCC's affiliate transaction rules.

In *Moultrie Independent Telephone Company*, FCC 01-292, CC Docket No. 96-45, 16 FCC Rcd 18,242 (rel. October 5, 2001), the FCC interpreted 47 CFR §36.2(c)(2) and detailed the regulatory accounting and separations treatment that it mandated for "sale and lease-back" arrangements between incumbent local exchange carriers (ILECs) and their affiliates. There, the ILEC had transferred substantial non-loop related assets (such as motor vehicles, land and buildings, and equipment) to an affiliate, and then leased them back. The ILEC admitted that the purpose of the transaction was to optimize its Universal Service Fund (USF) recovery and to maximize tax benefits. The FCC noted that the ILEC would not have been subject to the 47 CFR §36.2(c)(2) requirements if the transaction had been an arm's length one where the assets were sold to a non-affiliated entity and then leased back (presuming that the ILEC could find a non-affiliated buyer willing to engage in the transaction). *Id.* at 18.

However, when the transaction is a "noncompetitive" sale and lease-back between affiliates, the FCC declared that 47 CFR §36.2(c)(2) is intended to set up safeguards to prevent such transactions from being conducted solely for regulatory manipulation. *Id.*

In the present case, there was neither a "sale" nor a "lease-back" that would render the 47 CFR §36.2(c)(2) procedures and safeguards applicable to the CVTC-CVLD arrangement. First, CVTC leased certain dark fiber facilities to CVLD because CVLD was an Alaska-certificated long distance carrier and CVTC was prohibited by Alaska law to carry traffic between its Valdez and Glennallen exchanges. Second, after CVLD provided the electronics and other functionality necessary to render the dark fiber circuits operational as "lit" fiber and filed tariffs offering various interexchange services over this lit fiber to all interested entities (related and unrelated), CVTC purchased some of the offered interexchange services from CVLD at the tariffed rates. CVTC's arm's length purchase of these tariffed interexchange services cannot reasonably be classified as "rental" or "lease" payments under any conceivable common or technical meaning of those terms.

CVTC is a local exchange carrier (LEC) in Alaska and is not allowed to carry traffic across local exchange boundaries.

Section 42.05.890 of the Alaska Statutes contains the following definitions:

(1) "local exchange carrier" means any carrier certificated to provide local telephone services;
(2) "long distance carrier" or "long distance telephone company" means any carrier certificated to provide long distance telephone services;
(3) "long distance telephone service" or "long distance service" means intrastate, interexchange telephone service.

This statutory scheme limits LECs like CVTC to providing telephone services solely within their state-certificated local exchanges. Traffic between exchanges – that is, interexchange service – must be carried by a state-certificated long distance carrier (IXC). In addition to small IXCs like CVLD, CVTC and other Alaska LECs can obtain interexchange services from large IXCs such as AT&T and GCI, most of which services are provided via satellite facilities.

In Order No. 1 in Docket U-98-176, the Alaska Public Utilities Commission granted CVLD a certificate of public convenience and necessity on March 19, 1999, to furnish intrastate interexchange services within Alaska (copy attached as CVTC Exhibit A). The order contained detailed conditions, including: (a) requiring CVLD and CVTC to operate on a wholly separate basis from each other, including separate staffs, separate services and separate facilities; (b) permitting the provision of services to each other only on an arm's length basis; and (c) ordering CVLD to file its own tariff for its services.

On April 28, 2005, the Regulatory Commission of Alaska approved a Special Contract for the lease of dark fiber by CVTC to CVLD between Valdez and Glennallen, Alaska (copy of approval attached as CVTC Exhibit B). On November 15, 2007, the Regulatory Commission of Alaska approved the extension of this Special Contract beyond its initial two-year term via automatic renewals on a year-by-year basis (copy of approval attached as CVTC Exhibit C). The leased dark fiber facilities now include routes from Edgerton to Chitina, and from Glennallen to Mentasta and on to the Mentasta/Tok exchange boundary, in addition to the main Valdez-to-Glennallen route. The Special Contract (which was required to be amended in June 2005 by the Rural Utilities Service and which remains in effect) was scrutinized by the Regulatory Commission of Alaska and has never been alleged, much less shown, by any regulator or interested party to contain any provisions which would indicate that it is not a *bona fide* arm's length transaction.

CVTC notes that, in approving the Special Contract, the Regulatory Commission of Alaska granted a waiver of certification requirements, to the extent necessary, to allow CVTC to sell "interexchange service" (*i.e.*, the dark fiber extending between local exchange areas) for the sole purpose of the Special Contract even though it did not hold an interexchange certificate. Of course, one of the reasons for the dark fiber lease contract was to enable the carriage of traffic between CVTC's Valdez and Glennallen local exchanges – an interexchange service function which Alaska law prohibits a LEC like CVTC from performing.

CVLD has taken the dark fiber leased from CVTC and added electronic and other facilities necessary to upgrade it to lit fiber and offer various transmission services over it. CVLD offers its services to the public pursuant to its Tariff RCA (formerly APUC) No. 555.

CVTC orders and pays for various voice grade, digital channel and Ethernet private line services from CVLD pursuant to the provisions of Section 6 (sheets 6.1 through 6.69 of CVLD's tariff and their predecessor sections). These are completely arm's length transactions wherein CVTC has no option but to accept CVLD's tariffed services, rates, and regulations, and no control over the assignment of circuits by CVLD or the provisioning of the circuits by CVLD. These transactions constitute a series of clear-cut purchases of tariffed services that entail no negotiation, provide no opportunity for CVTC to request or obtain any favorable treatment from CVLD or to manipulate any regulatory mechanisms, and contain none of the elements or characteristics of a lease or rental transaction.

Unlike the typical sale and lease-back arrangement, the subject dark fiber facilities are not used entirely or predominately to provide services by, for or on behalf of CVTC. Specifically, the leased dark fiber route between Valdez and Glennallen contains four fibers. CVLD not only has improved these fibers by lighting them, but also has dedicated two of the lit fibers exclusively for service to a large, unrelated (non-CVTC) customer and uses the circuits of the remaining two lit fibers to provide a mix of services to CVTC and unrelated entities.

The composition and distribution of CVLD's private line revenues from its leased dark fiber routes (see CVTC Exhibit D) demonstrates further that there is no sale and lease-back arrangement dedicated to serving CVTC.

During the 2014 year under audit, CVLD derived only $455,341 of its $5,069,852 in private line service revenues (8.98%) from CVTC.[1] During the other years mentioned in this Finding #2, the results were similar:

2010: only $724,514.05 (30.48%) of $2,376,781.97 in private line service revenues from CVTC
2011: only $862,514.88 (24.02%) of $3,590,254.85 in private line service revenues from CVTC
2012: only $858,360.08 (19.44%) of $4,414,813.74 in private line service revenues from CVTC
2013: only $894,188.21 (19.00%) of $4,706,937.82 in private line service revenues from CVTC

[1] The independent CPA firm, Aldrich CPAs and Advisors LLP (Aldrich) audits the annual financial statements of CVLD. The results of the audits indicate that CVLD is a viable stand-alone business, and that it generates sufficient revenues from its other customers that it is not dependent upon revenues received from CVTC to remain so.

These facts demonstrate that the subject CVTC-CVLD dark fiber transaction is not a sale-lease back transaction that needs to be subjected to the 47 CFR §36.2(c) (2) safeguards. In a typical sale and lease-back arrangement intended to increase USF support, X would have sold dark fiber to affiliate Y, and then leased it back at a rental expense higher than rate-of-return and depreciation expense on X's dark fiber investment. Here: (a) there was no sale of the dark fiber by CVTC to CVLD; (b) CVLD improved the dark fiber by lighting it; (c) CVLD did not lease the dark fiber back to CVTC, but rather used it to provide tariffed services to CVTC and other entities; (d) in fact, CVLD provided the major part of its services over the dark fiber to, and received the major part of its associated private line service revenues from, entities other than CVTC; and (e) CVTC would have no reasonable basis for including in its rate base the dark fiber used by CVLD primarily to provide tariffed services to unrelated entities.

47 CFR §32.27(c) requires that services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, be recorded in the appropriate accounts at the tariffed rate. Such tariffed rates constitute substantial and persuasive evidence that a transaction is being undertaken at arm's length and at fair market value. Hence, the sale of tariffed services by CVLD to CVTC complied with the FCC affiliate transaction requirements of 47 CFR §32.27.

CVTC notes also that the 47 CFR §36.2(c)(2) safeguards become applicable only if the disputed "lease - back" amounts are "substantial" and are "rents."

NECA Guideline 2.19 – Non Substantial Operating Lease Expense states that the term "substantial" cannot be simply defined and quantified. Rather, "substantial" is dependent on the size and nature of the item and the particular circumstances in which it arises. In the case of CVTC, expenses related to tariffed services purchased from CVLD between 2010-2014 ranged from 4.8% and 5.7% of CVTC's total operating expenses. These relatively small amounts do not appear to be a "substantial" portion of CVTC's total expenses for any of the subject years.

The second condition to be satisfied is that CVTC must be paying "rent" to CVLD. While there is no specific definition of the term "rent" as it relates to this particular situation, prior to a revision in 2000, 47 CFR §32.5999 provided a definition of rents as follows:

(c) Rents. (1) This subsidiary record category shall include amounts paid for the use of **real and personal operating property.** Amounts paid for real property shall be included in Account 6121, Land and Buildings Expense. This category includes payments for operating leases but does not include payments for capital leases.

(2) This subsidiary record category is applicable only to the Plant Specific Operations Expense accounts. Incidental rents, e.g., short-term car rental expense, shall be categorized as Other Expenses (see paragraph (d) of this section) under the account which reflects the function for which the incidental rent was incurred.

CVTC's payments of the tariffed prices for the various voice grade, digital channel and Ethernet private line services it purchased from CVLD are not amounts paid for the use of real or personal property, or for incidental short term rents of cars and similar property. CVTC does not have a special contract or

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lease with CVLD specifying rent payments for the tariffed services described, there is no term or fixed period during which CVLD is restricted from changing its services or rates, and CVTC has no control over the assignment or provisioning of circuits or any other property used to provide the services. In other words, CVTC is purchasing tariffed services only from CVLD, and has no rights to the possession or use of any property to which "rent" or "rental payments" or a "lease term" might apply.

In summary, CVTC has properly and consistently accounted for its purchases of tariffed voice grade, digital channel and Ethernet private line services from CVLD in Accounts 6123 (Office equipment expense), 6124 (General purpose computers expense), 6212 (Digital electronic switching expense) and 6232 (Circuit equipment expense) during the 2010-to-2014 data period covered by the audit, and in fact all the way back to 2005. Since then, CVTC's booking of the related expenses associated with the purchase of services has been thoroughly examined without question during multiple National Exchange Carrier Association (NECA) reviews, a Universal Service Administrative Company (USAC) audit and an FCC Office of Inspector General (OIG) audit. At no time, was there an issue raised regarding CVTC's treatment of the related expenses until this audit. Given the thorough vetting of this issue and the significant restrictions outlined in CVLD's application to furnish intrastate interexchange telecommunications service within Alaska, CVTC does not see how this auditor considers a purchase of tariffed services to be a substantial rent and disputes the applicability of the requirements in 47 CFR 36.2(c)(2).

Auditor's Additional Comments –

We have reviewed the Beneficiary's response and the documentation provided as it relates to intrastate rules. While the interexchange facility arrangement between the Beneficiary and its wholly-owned affiliate Copper Valley Long Distance (CVLD) may have been necessary in order to comply with Alaska rules, we don't believe these same rules supersede the rules required by the FCC as it relates to interstate ratemaking and those used in the determination of HCP support. The FCC contemplated jurisdictional ratemaking practices that vary from those of the FCC in Part 32 and provided for those differences in accounts 32.1500 and 32.4370 for assets and liabilities and account 32.7910 for revenues and expenses.

The Beneficiary contends that the arrangement with CVLD was neither a "sale" nor a "lease-back" that would render Part 36.2(c)(2) procedures and safeguards applicable. The Beneficiary also stated in its response that the interexchange facilities purchased from CVLD under its tariff cannot reasonably be classified as rental or lease payments under common or technical meaning of those terms. We recognize that transactions are often labeled with the term lease or rent in the industry when the underlying documents supporting a transaction lend some credence to a service under legal interpretation or Generally Accepted Accounting Principles. Regardless of whether the affiliate charges incurred by the Beneficiary meet the common or technical meaning of rent or lease or whether the arrangement with CVLD qualifies as a sale and lease-back transaction, we don't believe the characterization of the transaction is the fundamental condition for the required application of Part 36.2(c)(2). The application of this Rule is required in this instance because of the mechanics of the Part 36 jurisdictional cost allocation process and the resulting impacts to the Part 36 cost study and HCP support results when large interexchange expenses are included in lieu of the related interexchange plant facilities.

We reference the FCC's explanation for why this treatment was enacted for sale and lease-back arrangements with an affiliate:

11. The reason for this specific Part 36 treatment is that, when a substantial amount of investment is involved, the jurisdictional allocation of the lease payment and the combined separations results would be skewed (i.e., the overall interstate allocations may be artificially higher or lower), if the assets were not included in the appropriate separations categories and jurisdictionally allocated based on the rules for the investment-type involved. This occurs because the Part 36 system is premised upon incumbent local exchange carriers owning the majority of their operational assets. Like other utilities, the local exchange telephone industry is, for the most part, characterized as an industry with large, fixed, capital investments that represent a high percentage of total costs. As such, the Part 36 process of jurisdictional cost allocation is predicated on the recognition that incumbent telephone companies will experience large amounts of capital investment cost.

12. Under the Commission's Part 36 rules, each of a carrier's basic components of plant, such as Central Office Equipment (COE) or Cable and Wire Facilities (C&WF), is allocated (i.e., separated) between the intrastate and interstate jurisdictions based either on a fixed allocation or results of studies made on the usage of the plant. Once separated, these basic plant costs provide a foundation upon which most other plant, reserve, and expense accounts are allocated between the jurisdictions. If a company were to sell and lease back one of these "foundation blocks" of plant, and were allowed to exclude the sold investment from its cost study, but include the lease payments as an expense, distortions to the separations results would occur. This is because the annual lease payment (which acts as a substitute for the "sold" investment) would be jurisdictionally allocated based on some or all of the remaining basic components of plant, whose usage would not be representative of the plant leased. This would, in turn, alter the separations results between jurisdictions in a manner not anticipated by the Part 36 rules. As an example of this distortion, a carrier might sell large amounts of plant with a low interstate allocation (e.g., 25%) and lease it back. The lease payments and other costs that are allocated based on the Total Plant in Service, total COE, or total C&WF will receive an artificially higher allocation to the interstate jurisdiction, due to the higher interstate allocation of the remaining COE and C&WF interexchange plant costs.

13. The distortions caused to the company's separations results by excluding non-loop related investment from its cost study would, as a consequence, also extend to its high-cost loop support. The Subpart F high-cost loop support algorithm uses factors derived from the ratio of loop-related investment to total investment. If an incumbent carrier were to sell large portions of its non-loop related plant to an affiliate, and then lease back those assets and include the lease payment as an expense, the carrier's cost study would be skewed to decrease its assets, and increase its operational expenses, thus resulting in a higher per-loop cost. The higher per loop costs result because of the

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> *relationship between loop-related investment and total investment. When virtually all of the non-loop related investment is removed from the calculation, the cost allocation factors are significantly altered. Because the categories used to determine high-cost loop support pursuant to Subpart F of part 36 are based upon the categorization rules set forth in other sections of Part 36, it is important for incumbent LECs to ensure that their high-cost loop support submissions to NECA conform with all other sections of Part 36, including section 36.2(c)(2).*[2]

We recognize the transaction in Finding #2 may not be characterized as a sale and lease-back of interexchange plant. However, we believe the same principles discussed in the *Moultrie Order* apply to the Beneficiary. The Beneficiary incurred substantial interexchange expenses from its affiliate, and without associated or representative interexchange plant included in its cost studies, the interexchange expenses were improperly assigned to jurisdictions and Part 69 access elements based on the Beneficiary's existing plant categories, which is largely loop or subscriber plant in nature. We believe this results in grossly overstated loop costs recovered from HCLS and ICLS and grossly understates interexchange costs recovered from LSS and CAF.

Further, Part 36.2(c) sets two conditional requirements for its application by referencing 1) affiliate related and 2) substantial [in nature]. In the case of the transaction identified in Finding #2, the interexchange transport expenses are the result of the Beneficiary's affiliate charges. Therefore, the first condition is met. For the second condition, NECA Cost issue 2.19 Separations Treatment of Operating Lease Expenses and Capital Leases provides clarification on the term substantial. The Cost Issue states:

> The term "substantial" cannot be simply defined and quantified. Rather, "substantial" is dependent on the size and nature of the item and the particular circumstances in which it arises. When a lease of property is substantial in nature, the corresponding jurisdictional allocation of the lease payment and associated separations results of the study area would tend to be skewed or distorted if assets were not included in the appropriate separations category and apportioned based on the prescribed investment allocation methodologies.[3]

The Beneficiary argues that the interexchange charges incurred from its affiliate are not substantial in amount and provides the citation from NECA Cost Issue 2.19 Separations Treatment of Operating Lease Expenses and Capital Leases, stating that the term substantial cannot be simply defined and quantified. While Cost Issue 2.19 appears to indicate there is no bright line to define substantial, we note that the Beneficiary's response failed to identify the key element of the FCC's definition of "substantial" as conveyed in the *Moultrie Order* and further emphasized in Cost issue 2.19, which says

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[2] *Moultrie Independent Telephone Company et al.*, CC Docket No. 96-45, Order, 16 FCC Rcd 18242, 18247-48, paras. 11-14 (2001) ("*Moultrie Order*").

[3] 2.19 Separations Treatment of Operating Lease Expenses and Capital Leases, NECA Cost Issue at Section 2: Expenses, Issue number 2.19, page 6 of 9 (2007).

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"when a lease of property is substantial in nature, the corresponding jurisdictional allocation of the lease payment and associated separations results of the study area would tend to be skewed or distorted if assets were not included in the appropriate separations category and apportioned based on the prescribed investment allocation methodologies."

We assessed the impact on the Beneficiary's Part 36 cost studies and HCP filings and found the results were significantly skewed by the Beneficiary's practice of including the interexchange expenses in its cost studies in lieu of including the associated interexchange plant in its categorization during the periods under audit (see monetary effects above). Therefore, we believe the substantial condition is met.

Part 36.2(c)(2), as discussed in the *Moultrie Order*, was designed to ensure that costs that could be affected by an affiliate arrangement are evaluated, and if substantial in amount, are subject to restrictions to avoid improper allocation of expenses to separations categories. In the case of expenses associated with property, the expenses should be removed and the related plant should be included in the separations study for category assignment based on separations factors. In the case of Finding #2, the expenses are the circuit charges and the plant is the interexchange fiber owned by the Beneficiary and leased by its affiliate CVLD under a dark fiber IRU.

Based on the information provided by the Beneficiary, the structure of the interexchange transport arrangement identified in Finding #2 may be required by Alaska regulations. However, in performing its interstate cost study used in the determination of HCP support, the interexchange plant associated with the transport arrangement should have been included in the Beneficiary's Part 36 separations study and the associated expenses should have been removed to comply with Part 36.2(c)(2) which would have prevented the over-allocation of costs assigned to loop categories and the under-allocation of costs assigned to interexchange categories. Therefore, our position is unchanged with respect to our finding.

Beneficiary's Response to Auditor's Additional Comments –
Beneficiary Copper Valley Telephone Cooperative, Inc. (CVTC) continues to object to the Auditor's assertions that CVTC was required pursuant to Section 36.2(c)(2) of the FCC Rules: (a) to include in its telephone operations the costs and related expenses of the dark fiber that it was prohibited by Alaska law from using to connect its exchanges and that it instead leased pursuant to Regulatory Commission of Alaska (RCA) approval to its subsidiary Copper Valley Long Distance (CVLD); and (b) to exclude as "rent expenses" the various tariffed charges that it paid CVLD for voice grade, digital channel and Ethernet private line services over portions of the dark fiber that were subsequently lit and otherwise upgraded by CVLD.

There Is No Basis for Preempting Alaska State Law
While Auditor noted that "the interexchange facility arrangement between the Beneficiary and its wholly-owned affiliate *may* have been necessary in order to comply with Alaska rules [emphasis added]," it proceeded to disregard the extent to which the arrangement was mandated by Alaska law, and reviewed, approved and monitored by the Alaska Public Utilities Commission (APUC) and its successor the RCA. As detailed previously, Section 45.05.890 of the Alaska Statutes defines "local

exchange carriers" and "long distance carriers" in a separate and non-overlapping manner, expressly limits local exchange carriers to the provision of services solely within their state-certificated local exchanges, and specifically requires traffic between exchanges to be carried by state-certificated long distance carriers. Whereas CVLD is wholly-owned by CVTC, it was authorized by the APUC in 1999 subject to conditions, *inter alia*, that CVTC and CVLD be wholly separate, including separate employees and cost accounting, and that all transactions between them be on a strict arms' length basis (CVTC Exhibit A). Subsequently, the RCA in May 2005 reviewed and approved the subject dark fiber lease (CVTC Exhibit B), and in May 2007 extended the dark fiber lease and permitted it to be renewed automatically on a year-by-year basis (CVTC Exhibit C). The Auditor seeks to avoid and disregard the state-mandated origin and nature of the dark fiber arrangement by claiming that the very general references in Sections 32.1500, 32.4370 and 32.7910 to the "impact" of "jurisdictional ratemaking practices that vary from those of this Commission" support the Auditor's lack of "belief" that the Alaska rules "supersede" the rules required by the FCC regarding interstate ratemaking and high-cost support. We disagree. First, the cited general rules do not override differing state practices, but rather require the impacts to be recorded net of applicable income tax effects and supported by appropriate subsidiary records. More important, the cited Part 32 rules do not preempt state laws regarding the services permitted to be provided by state-certificated local exchange carriers and long distance carriers, nor state commission actions that require and authorize specific transactions between and among state-certificated local exchange carriers and long distance carriers. The Auditor's interpretation, if adopted, would place CVTC in a clear and unwinnable conflict between state and federal law – between the "rock" of compliance with the Alaska statute and RCA approvals and the "hard place" of forfeiture and repayment of $2,244,938 of its previously received federal high-cost support. Penalizing CVTC in this harsh and substantial manner for its plainly reasonable prior compliance with Alaska statutory and regulatory requirements would effectively constitute a "preemption" of Alaska law. The Auditor provides no support for such pre-emption other than its unsubstantiated "belief" that the vague Sections 32.1500, 32.4370 and 32.7910 of the FCC's Rules override and supersede state law.

There Is No Need to Preempt Alaska Law

CVTC has previously emphasized that the subject dark fiber lease was plainly distinguishable from the sale and lease-back transaction in *Moultrie Independent Telephone Company*, FCC 01-292, released October 5, 2001, because it was in no respect a readily manipulated voluntary transaction by a parent carrier with an affiliate intended for the sole or substantial purpose of maximizing federal high-cost support and/or tax benefits. Rather, the CVTC-CVLD arrangement was mandated by Alaska law and reviewed and approved by the RCA. More important, the FCC made it absolutely clear in *Moultrie* that its predominant concern was the readily manipulated nature of affiliate transactions rather than hypothetical separations calculations. At paragraph 18 of its *Moultrie* decision, the FCC stated expressly that it would have accepted the sale and lease-back transaction, and would have allowed the local exchange carrier to remove the assets from its investment base and include the lease payments as an operational expense, if only the local exchange carrier had made its arrangement at arms' length with a non-affiliate rather than its affiliate. Nothing could be more clear than that the FCC's focus was to address and limit the manipulation of high cost support and tax benefits via voluntary structuring of affiliate transactions. Here, CVTC not only made its lease arrangement at arms' length with the wholly separate CVLD, but did so pursuant to Alaska statutory

requirements and regulatory supervision, and paid the same tariffed charges for CVLD's services as other non-affiliated customers. In sum, CVTC had no intent to enter into the dark fiber arrangement in order to manipulate its federal high-cost support, and had no ability or flexibility to do so under the RCA-monitored and publicly tariffed arrangement. In light of the FCC's explicit recognition that sale and lease-back and similar transactions that are not subject to ready manipulation via affiliate relationships are acceptable and that their accounting will be recognized for interstate ratemaking and federal high-cost support purposes, the Alaska-required CVTC-CVLD dark fiber arrangement should be accepted and there should be no conflict between Alaska law and FCC requirements giving rise to preemption issues.

There Are No Obvious Viable Alternatives to the Subject Dark Fiber Arrangement

CVTC has no clear idea how it could undo its dark fiber arrangement with CVLD or what policies and procedures it might implement to "ensure that it has an adequate system in place for preparing, reviewing, and approving data reported in its [High Cost Program] filings to ensure compliance with applicable FCC rules." As explained previously, CVTC has leased four (4) dark fibers to CVLD between its Valdez and Glenallen exchanges. Subsequently, CVLD has improved the fibers by lighting them, has dedicated two (2) of the fibers to the service of an unrelated large customer, and has been using the other portions of the leased fibers to provide publicly tariffed services to CVTC and unrelated entities. CVTC is at a loss to determine how it could unwind these arrangements without substantial and harmful service interruptions, or how it could have its employees and consultants "certify" to the accuracy of "dark fiber costs" when that dark fiber has been lit and devoted to a variety of regulated and non-regulated uses by CVLD. Furthermore, when Alaska statutes or the RCA require CVTC to do something, it complies or seeks further guidance from the RCA. CVTC does not know what types of policies or procedures it could put in place to ensure that its compliance with Alaska law would not subsequently be deemed to constitute a violation of FCC rules. CVTC notes that the only obvious alternative to its dark fiber arrangement with CVLD would have been to leave its dark fiber in the ground and unimproved, and to purchase the interexchange services necessary to connect its exchanges from unrelated interexchange carriers (IXCs). This alternative would have allowed CVLD to keep the dark fiber costs in its rate base AND include the IXC charges as expenses, thereby maximizing its interstate and intrastate rates and its federal high-cost support. CVTC does not believe that this alternative would have served the public interest, or that the RCA would have permitted it to employ it when the less costly alternative of the subject lease and tariff arrangement with CVLD was available.

Section 36.2(c)(2) of the FCC Rules Is Not Applicable

Section 36.2(c)(2) deals with the case of property rented from affiliates, and states that "the property and related expenses are included with, and the rent expenses are excluded from, the telephone operations of the company making the separation." CVTC has previously addressed this matter in detail. In particular, it reiterates that CVLD's tariffed charges for telecommunications services that were reviewed and allowed to go into effect by the RCA and that are applicable to CVTC and to any and all potential unrelated customers are in no respect equivalent or comparable to readily manipulated rental charges by an affiliate to its parent company. Finally, the Auditor ignored the fact that CVTC had shown that the tariffed services purchased from CVLD between 2010 and 2014 ranged from 4.9% to 5.7% of CVTC's total operating expenses. Without addressing the non-substantial

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nature of 5% amounts, the Auditor jumped to the "belief" that this relatively small portion of operating expenses "results in grossly overstated loop costs recovered from HCLS and ICLS." In stark contrast, the FCC has increasingly determined during recent years that 5% deviations from certain requirements are not "substantial." For example, in assessing compliance with Alternative Connect America Cost Model (ACAM) build-out obligations, the FCC has held in Section 54.311(d) of its Rules that a shortfall of up to 5% of the required number of newly served locations will be deemed to constitute compliance.

Auditor's Additional Comments –
We have considered the Beneficary's additional responses and do not believe its additional responses provide any new basis to conclude the Beneficiary complied with Part 36.2(C)(2) as prescribed by the FCC, therefore our position is unchanged with respect to this matter.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 64.901 (a) and (b), (2001)	Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (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 based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.
#2	47 C.F.R. § 36.2(c)(2) (2006)	Property rented to affiliates, if not substantial in amount, is included as used property of the owning company with the associated revenues and expenses treated consistently: Also such property rented from affiliates is not included with the used property of the company making the separations; the rent paid is included in its expenses. If substantial in amount, the following treatment is applied: (1) In the case of property rented to affiliates, the property and related expenses and rent revenues are excluded from the telephone operations of the owning company, and (2) In the case of property rented from affiliates, the property and related expenses are included with, and the rent expenses are excluded from, the telephone operations of the company making the separation.

The following are the Exhibits referenced in the Beneficiary's response to FINDING No.: HC2016BE030-F02:

CVTC Exhibit A

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STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Sam Cotten, Chairman
Alyce A. Hanley
Dwight D. Ornquist
Tim Cook
James M. Posey

In the Matter of the Application by COPPER VALLEY LONG DISTANCE, INC., for a Certificate of Public Convenience and Necessity To Operate as a Telecommunications (Intrastate Interexchange) Public Utility Within Alaska	)	U-98-176 ORDER NO. 1

ORDER APPROVING APPLICATION, SUBJECT TO CONDITIONS; REQUIRING FILINGS; APPROVING INITIAL TARIFF; AND CONDITIONALLY GRANTING WAIVER

BY THE COMMISSION:

Background

On November 20, 1998,[1] Copper Valley Long Distance, Inc. (CVLD), filed an application for a certificate of public convenience and necessity (certificate) for authority to furnish intrastate interexchange telecommunications public utility service within Alaska. CVLD stated that it would provide the proposed telecommunications service by leasing facilities and reselling the telecommunications service of other carriers. Notice of the application was issued to the public on January 6, 1999, with a

[1]The Commission notes that the application was supplemented on December 21, 1998.

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closing date of February 5, 1999, and again on February 17, 1999, with a closing date of March 1, 1999, for the submission of statements in support of, or in opposition to, the application. No comments have been received in response to the notices.

The Commission Staff (Staff) reviewed the filings in this proceeding and on March 1, 1999, submitted its analysis and recommendation (Report) thereon. Staff's Report sets out in detail the history of the proceeding, public notice of the application and responses thereto, and Staff's findings and recommendations regarding disposition of the application. A copy of Staff's Report is attached to this Order as an Appendix.

Among other things, Staff stated that CVLD is fit, willing, and able to resell intrastate interexchange telephone service within Alaska. Staff recommended that CVLD's application be approved with the same conditions that had been applied to other intrastate interexchange carriers (IXCs) with local exchange carrier (LEC) affiliates.

Staff also recommended that the Commission reserve the right to review the above conditions because the Federal Communications Commission (FCC) may ultimately adopt regulations that render those conditions inconsistent with the Telecommunications Act of 1996 (The Act).[2] Further, Staff noted that the Commission may wish to reevaluate the conditions placed on Copper Valley

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[2] 47 U.S.C. § 151 *et seq.*, as amended by The Act.

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Telephone Cooperative, Inc. (CVTC),[3] and CVLD in this proceeding following the Commission's review of generic regulations governing the IXC market.

Staff recommended that CVLD's tariff Title Sheet and tariff Sheet Nos. 1 through 5.6, filed November 20, 1998, be approved. Staff also recommended that CVLD's request for a waiver of the requirement to provide wholesale services under its tariff be approved subject to the condition that if CVLD constructs or operates interexchange facilities in Alaska, or expands its intrastate service in Alaska, CVLD be required to file a wholesale tariff for the Commission's approval before the new intrastate services are provided or the facilities are placed into service. Staff further recommended that the Commission place CVLD on notice that it may also be required to provide wholesale services in the future if another carrier requests purchase of CVLD's services on a wholesale basis.

Discussion

I. CVLD, IXC Application

Based on its review in the proceeding, the Commission concurs with Staff that CVLD is fit, willing, and able to furnish the proposed intrastate interexchange telecommunications public

[3]CVTC is the LEC affiliate of CVLD.

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utility service.[4] Accordingly, the Commission accepts Staff's recommendation to approve CVLD's application.

The Commission also concurs with Staff that it is appropriate at this time for CVLD's certificate to be subject to the conditions recommended by Staff. Therefore, the approval of CVLD's application is subject to those conditions that are more specifically described in Staff's Report.[5] However, those conditions are the subject of an investigation in Docket U-99-1[6] as to whether they are still appropriate. By Order U-98-144(1)/-U-99-1(1), dated January 5, 1999, the Commission designated CVLD a party to these proceedings.

Additionally, the Commission concurs that CVLD's proposed initial tariff Title Sheet and tariff Sheet Nos. 1 through 5.6 filed November 20, 1998, be approved. Further, the Commission has determined that CVLD's request for a waiver of the requirement to provide wholesale services under its tariff will be approved, with conditions. If CVLD constructs or operates

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[4]The Commission notes that under its regulations at 3 AAC 52.350(b) the competitive provision of intrastate interexchange telephone service in accordance with the provisions of 3 AAC 52.350 – 3 AAC 52.399 is required by the public convenience and necessity.

[5]The Commission notes that those conditions are subject to change as a result of FCC action or the Commission's review of its regulations that govern LECs in the interexchange market in the generic proceeding initiated by Docket U-99-1.

[6]That proceeding is entitled: *In the Matter of the Consideration of Restrictions Placed on Interexchange Carrier Affiliates of Incumbent Local Exchange Carriers.*

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interexchange facilities in Alaska, or expands its intrastate services in Alaska, it will be required to file a wholesale tariff for the Commission's approval before the new intrastate services are provided or the facilities are placed into service.[7]

Staff's Report is adopted by reference and incorporated herein as the Commission's findings of fact and conclusions of law.

II. Consideration of Restrictions on IXCs with LEC Affiliates

By Order U-99-1(1), the Commission opened a docket for the purpose of addressing the restrictions which are placed on IXCs that have LEC affiliates. Based on its review in Docket U-98-144[8] and other recent IXC applications filed by carriers that have incumbent LEC (ILEC) affiliates, the Commission has initiated an investigation regarding the continuing applicability of several conditions currently imposed on the IXC affiliates of ILECs.

ORDER

THE COMMISSION FURTHER ORDERS:

1. As more fully discussed herein, the application filed by Copper Valley Long Distance, Inc., for a certificate of

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[7]The Commission may also require CVLD to provide wholesale services under tariff in the future, if another carrier requests purchase of CVLD's services on a wholesale basis.

[8]That proceeding is entitled: *In the Matter of the Application by CORDOVA LONG DISTANCE, INC., for a Certificate of Public Convenience and Necessity To Operate as a Telecommunications (Intrastate Interexchange) Public Utility Within Alaska.*

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public convenience and necessity to operate as a telecommunications (intrastate interexchange) public utility within Alaska is approved, subject to the following conditions:

a. Copper Valley Long Distance, Inc., shall maintain separate books and records for its intrastate interexchange telephone operations;

b. Copper Valley Long Distance, Inc., shall pay intrastate interexchange access charges and file Bulk Bill reports;

c. Copper Valley Long Distance, Inc., shall revise its Cost Allocation Manual with respect to its other affiliated companies and to Copper Valley Long Distance, Inc., to include specific information showing the assignment of costs for Copper Valley Long Distance, Inc., and shall annually file an updated Cost Allocation Manual with the Commission for its review;

d. Copper Valley Telephone Cooperative, Inc., shall quarterly file with the Commission a report certifying that the utility's employees[9] have not provided to Copper Valley Long Distance, Inc., customer proprietary network information or customer information that is protected under 47 U.S.C. § 222;

[9] This prohibition does not apply to Tim Rennie as the General Manager of CVLD.

e. the assets of Copper Valley Telephone Cooperative, Inc., may not be used, directly or indirectly, as collateral for financing the operations of Copper Valley Long Distance, Inc.;

f. as more specifically addressed in the body of this Order, Copper Valley Telephone Cooperative, Inc., is prohibited from using its assets, employees,[10] or market position for the benefit of Copper Valley Long Distance, Inc., until such time as effective competition exists in the local exchange market of Copper Valley Telephone Cooperative, Inc., and;

g. Copper Valley Telephone Cooperative, Inc., shall observe strict competitive neutrality in offering its local exchange customers access to long distance services, including:

i. Copper Valley Telephone Cooperative, Inc., and Copper Valley Long Distance, Inc., must be completely separate, with separate employees;[11] and any administrative, financial, legal, accounting, engineering, research, development, or similar services must be provided on a strict arm's-length basis, with strictly segregated cost accounting;

[10] *See* n. 7.

[11] *See* n. 7.

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ii. customer service representatives of Copper Valley Telephone Cooperative, Inc., must maintain strict neutrality when presubscribing their customers to long distance carriers;

iii. Copper Valley Long Distance, Inc., and its affiliate may not market local and long distance services as a "bundle;"

iv. access to customer proprietary network information by Copper Valley Long Distance, Inc., must be restricted except to the extent that the information is available to other, unaffiliated, carriers;

v. Copper Valley Telephone Cooperative, Inc., may not share the proprietary information of unaffiliated carriers that is legitimately accessed in the course of business;

vi. Copper Valley Telephone Cooperative, Inc., and Copper Valley Long Distance, Inc., may not jointly own or purchase any transmission or switching facilities in common with one another; and

vii. Copper Valley Telephone Cooperative, Inc., and Copper Valley Long Distance, Inc., may not allow one another to maintain any of the

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facilities of the other unless the same such arrangement is offered to unaffiliated providers.

2. Beginning April 30, 1999, and by April 30 of each year thereafter, Copper Valley Long Distance, Inc., shall file with the Commission its audited or reviewed financial statements for the previous year. If the utility does not plan to have audited or reviewed financial statements prepared for a given year, then it shall file a year-end balance sheet and income statement for that year and audited or reviewed financial statements for the previous year.

3. The tariff Title Sheet and tariff Sheet Nos. 1 through 5.6 filed November 20, 1998, by Copper Valley Long Distance, Inc., are approved, effective the date of this Order.[12]

4. The request by Copper Valley Long Distance, Inc., for a waiver of the requirement to provide wholesale services under its tariff is conditionally approved. If Copper Valley Long Distance, Inc., constructs facilities in Alaska, expands its intrastate services in Alaska, or another carrier requests wholesale services from Copper Valley Long Distance, Inc., the utility shall file a wholesale tariff for the Commission's

[12]The Commission Staff will forward a validated copy of the approved tariff to the utility under separate cover.

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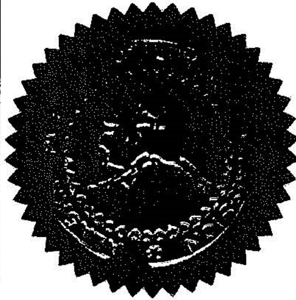
Alaska Public Utilities Commission
1016 West Sixth Avenue, Suite 400
Anchorage, Alaska 99501
(907) 276-6222; TTY (907) 276-4533

approval before the new intrastate services are provided or the facilities are placed into service.

DATED AND EFFECTIVE at Anchorage, Alaska, this 15th day of March, 1999.

BY DIRECTION OF THE COMMISSION
(Commissioners Sam Cotten, Chairman, and
Dwight D. Ornquist, not participating.)



Briefing book excludes all materials discussed in Executive Session.

STATE OF ALASKA
The Alaska Public Utilities Commission
1016 West Sixth Avenue, Suite 400
Anchorage, Alaska 99501

MEMORANDUM

TO: Commissioners:
Sam Cotten, Chairman
Alyce A. Hanley
Dwight D. Ornquist
Tim Cook
James M. Posey

DATE: March 1, 1999

From: Brad Persson, Utilities Engineering Analyst II

Subject: Docket U-98-176, application by Copper Valley Long Distance, Inc., for a certificate of public convenience and necessity to furnish intrastate interexchange telecommunications services in Alaska.

RECOMMENDATION

1. Staff has reviewed the application of Copper Valley Long Distance, Inc. (CVLD) and believes that it is fit, willing, and able to resell intrastate interexchange telephone carrier (IXC) service in Alaska. Staff recommends that CVLD's application be approved with the following conditions:

   a) CVLD should be required to maintain separate books and records for its IXC operations.

   b) CVLD should be required to pay intrastate interexchange access charges and file Bulk Bill reports.

   c) Copper Valley Telephone Cooperative, Inc.'s (CVTC) Cost Allocation Manual (CAM) including its affiliated companies as well as CVLD, should be updated and filed annually for Commission review.

   d) CVTC should be required to file a quarterly report with the Commission certifying that its employees have not provided customer proprietary network information (CPNI)[1] or customer information to CVLD that is protected under 47 U.S.C. Section 222.

[1] CPNI means: (a) information that relates to the quantity, technical configuration, type, destination, and amount of use of a telecommunications service subscribed to by any customer of a telecommunications carrier, and that is made available to the carrier by the customer solely by virtue of the carrier-customer relationship; and (b) information contained in the bills pertaining to telephone exchange service or telephone toll service received by a customer of a carrier; except that such term does not include subscriber list information.

e) CVTC's assets should not be used, directly or indirectly, as collateral for financing of CVLD's operations.

f) CVTC is prohibited from using its assets, employees[2] or market position for the benefit of CVLD until such time as effective competition exists in CVTC's local exchange market.

g) CVTC observe strict competitive neutrality in offering its local customers access to long distance services. For example:

i. CVTC, and CVLD shall be completely separate, with separate employees -- any administrative, financial, legal, accounting, engineering, research, development or similar services provided on strict arms length basis with strictly segregated cost accounting;

ii. CVTC, customer services representatives shall maintain strict neutrality when presub-scribing CVTC's customers to long distance carriers;

iii. CVLD and its affiliates shall not be allowed to market their local and long distance services as a "bundle;"

iv. CVLD's access to CPNI shall be restricted except to the extent it is available to other unaffiliated carriers;

v. CVLD and CVTC, shall not share unaffiliated carriers' proprietary information which they legitimately access in the course of business; and

vi. CVTC and CVLD shall not jointly own or purchase any transmission or switching facilities in common with each other.

vii. CVTC and CVLD shall not allow each other to maintain any of each other's facilities unless the same such arrangements are offered to unaffiliated providers.

2. By April 30 of each year, CVLD should be required to file its audited or reviewed financial statements for the previous year.

3. The Commission should note that with the approval of CVLD's application that to the extent that the Federal Communications Commission (FCC) adopts regulations which render the conditions inconsistent with the Telecommunications Act of 1996, the Commission reserves the right to review the conditions. Furthermore, the Commission may reevaluate conditions placed on CVTC, and CVLD as a result of review of generic regulations governing local exchange companies (LEC) in the IXC market.

4. Staff recommends that CVLD's tariff Title Sheet and tariff Sheet Nos. 1 through 5.6 filed November 20, 1998 be approved.

[2] This prohibition does not apply to CVTC executive staff member Tim Rennie, General Manager.

Briefing book excludes all materials discussed in Executive Session.

5. Staff recommends that CVLD's request for a waiver from the requirement to have a wholesale tariff be granted. This waiver should be approved with the condition that should CVLD construct or operate interexchange facilities in Alaska or expand its intrastate service in Alaska, CVLD is required to file a wholesale tariff with the Commission for approval before the new intrastate services are provided or the facilities are placed into service. CVLD may also be required to provide a wholesale tariff in the future if another carrier requests CVLD to provide wholesale services.

6. Staff recommends that the Commission specifically require CVTC, to observe strict competitive neutrality in offering their local customers access to long distance services.

BACKGROUND

On November 20, 1998. CVLD filed an application for a certificate of public convenience and necessity to provide intrastate interexchange telecommunications service in the state of Alaska. CVLD proposes to provide message telephone service. 800/877/888 services, calling card services, prepaid calling card services, operator services, and discounted services in Alaska by reselling interexchange service obtained from other certificated IXCs.

On December 21, 1998. CVLD filed a supplement to complete their application for a certificate of public convenience and necessity. This filing included CVTC financial information at the request of Staff.

On January 6, 1999, the filing was noticed to the public with a closing date of February 5, 1999, for submission of comments in favor of, or in opposition to, the application. To date there has been no response to the notice.

On February 17, 1999. the filing was noticed again to the public specifically in the Valdez Star with a closing date of March 1, 1999, for submission of comments in favor of, or in opposition to, the application. This second notice was necessary after notification from the Valdez Star that the advertising order for the notice was not received until after the notice period had expired. To date there has been no response to the notice.

DISCUSSION

Fitness, Willingness, and Ability

CVLD is a corporation organized under the laws of the state of Alaska. CVLD is a wholly owned subsidiary of CVTC. CVTC is a cooperative organized under the laws of the state of Alaska and holds Certificate of Public Convenience and Necessity No. 11 authorizing it to furnish local exchange telephone services within Valdez, Glennallen, and other communities in the Copper River Basin. CVLD will have the same board members as CVTC.

CVLD proposes to furnish IXCs intrastate interexchange message telephone service, 800/877/888 services, calling card services, prepaid calling card services, operator services, and

discounted services in Alaska. CVLD states that it has no existing facilities used to provide intrastate interexchange telephone service. Its intrastate service will be wholly reliant on the in-state network of the underlying carriers and will not pass through an out-of-state switch. CVLD states that the "facilities" for which authority is requested by this application include the tariffed services of other IXCs and LECs. Those tariffs are on file with the Commission, and the rates, terms and conditions are a matter of record.

CVLD states that it recognizes and accepts its responsibility under 3 AAC 52.380(a) to submit data necessary for the calculation of access charges for each month. CVLD states that its agreements with the underlying carriers will provide for the collection of the information required for it to submit the data.

CVLD states that it has no present plans to construct facilities within the next five years for the provision of intrastate IXC services. The application states that if CVLD should decide to construct intrastate IXC facilities, it would comply with applicable Commission rules and regulations in obtaining authorization and installing such facilities.

The application supplement consists of a copy of the 1997 Form M for CVLD's parent company, CVTC. The Form M contains a balance sheet and income statement for the most current year. CVTC's financial statement reported that as of December 31, 1997, it had Total Operating Revenues of $7,010,952 and Total Operating Expenses of $6,127,790, for a Net Operating Income of $883,162. CVTC had other income and expenses of ($614,716) for a ($154,986) Net Margin. The consolidated Balance Sheet reported that as of December 31, 1997, CVTC had Current Assets of $6,099,926 and Current Liabilities of $4,470,351 for a current ratio of 1.36.

The proposed rates have been noticed with the application and the tariff revision process for non-dominant IXC carriers involves a 30 day period.

The application states that CVLD has the technical expertise and will acquire the additional resources necessary to provide intrastate IXC services. The application states that Tim Rennie, General Manager of CVTC will be responsible for the start-up activities of CVLD and Pamla Murphy, Finance/DP Manager of CVTC, will be responsible for the controller-related responsibilities associated with CVLD.

The application states that some services will be provided to CVLD by contract with affiliated entities. Further, the applicant explains that CVTC and CVLD will operate under the Operation and Support Services Agreement, which provides for the provision of various services and the sharing of personnel between the affiliated companies. The intent of this agreement is indicated to be to minimize CVLD's use of resources from CVTC to avoid cross-subsidization concerns. A copy of this agreement has been included in the application.

The agreement provides for services contracted from CVTC including but not limited to: the employment of all personnel as may be necessary to administer and carry on operation and support service for CVLD, maintenance services, customer billing and collection services, purchasing and payment services including materials, supplies, taxes, and insurance, reporting services, records and bookkeeping services. The agreement provides for CVTC to prepare

financial reports and to record the costs for providing the services to CVLD, the use of the Cost Allocation Manual (CAM), and the maintenance of separate books and records for CVLD's operations.

CVLD states that it intends to purchase transport and other services from selected facilities-based IXCs. Although CVLD did not specifically identify which services or underlying carrier it would use, it appears that there are services available which would allow CVLD to provide the proposed IXC services as a reseller.

Based of the application demonstrating that the proposed management of CVLD has considerable experience operating and managing telecommunications utilities and that its affiliate has the financial ability to support the proposed CVLD operation, Staff believes that CVLD is fit, willing, and able to provide the proposed services.

Conditions of Certification

CVLD states that it will be an IXC separated from its LEC affiliate operations and intends to maintain a strict separation between the entities in order to advance the policies identified by the Commission and the FCC. The filing states that CVTC will update and annually file its CAM with the Commission for its review. The application included a copy of CVTC's updated CAM. Staff has not reviewed CVTC's updated CAM as of the date of this recommendation but can see no reason to delay consideration for certification. Staff will address the CAM after the conditions for approval have been established and will make an additional Staff recommendation at that time. Further, the CAM is subject to annual review during access charge and rate proceedings.

In previous proceedings, the Commission has imposed conditions on incumbent LEC affiliated IXC's to ensure that a level playing field is maintained for all IXCs and to ensure a competitive IXC market. The Commission has granted certificates to LEC affiliated IXCs to provide intrastate long distance service subject to certain conditions to ensure the reasonable protection of the LEC's rate-payers, ensure that unreasonable cross-subsidization did not occur, and maintain a level competitive IXC playing field yet not create an unreasonable barrier to LEC affiliated IXC's entry into the IXC market. These conditions are currently being reviewed in Docket U-99-1.

To ensure that a level playing field is maintained for all IXCs and ensure a competitive IXC market, CVLD should be required to separate the day-to-day managers, marketing personnel, and customer service personnel from CVTC. In CVLD's case it is reasonable for Tim Rennie to be considered an executive manager for the CVLD operations. The separation of CVTC's marketing and customer service personnel from CVLD is appropriate because CVTC personnel have knowledge of local customer service requests and local customer information and the potential for those personnel to use that knowledge to the advantage of CVLD in the IXC market.

Briefing book excludes all materials discussed in Executive Session.

Staff believes that the ability to market local exchange and long distance service as a package (bundle) will provide CVTC/CVLD with an inappropriate ability to influence the market. To ensure a level competitive IXC playing field and promote competition Staff recommends that CVLD be prohibited from using CVTC's monopoly access to local customers to market CVLD services until such time as competition exists in the affiliates local exchange markets. Specifically, the bundling by CVTC, or CVLD of IXC services with LEC service and promotional marketing of IXC services by tying them to customers' use of local monopoly services is prohibited.

Based on the above, Staff recommends that the same conditions be applied to CVLD/CVTC, that were imposed on KSC, TALD, MTA-LD, OTZ-Telecom and on other LEC affiliated IXCs. Staff believes that the recommended conditions address the significant issues regarding LEC and IXC operations that relate to the applicant in this proceeding. The Commission is currently investigating in the Commission's market structure rule making docket (U-99-1) whether the conditions that have been imposed on LEC affiliated IXCs are necessary to protect the public interest, whether the Commission should promulgate regulations to implement the conditions on other than a case-by-case basis, and whether the current conditions on the various IXC/LECs are effective.

With the approval of CVLD's application, the Commission should note that, to the extent the Federal Communications Commission adopts regulations which render the conditions inconsistent with the Telecommunications Act of 1996, the Commission reserves the right to review and modify the conditions.

The conditions imposed on KSC, TALD, MTA-LD, OTZ-Telecom and on other LEC affiliated IXCs except for different company names, are the same as those delineated in recommendation section of this report.

Wholesale Tariff

CVLD requested a waiver of the provision of 3 AAC 52.375 requiring it to have a wholesale tariff. CVLD requested the waiver because it has no interexchange facilities and has no intention at this time to install such facilities.

Based on the above, Staff recommends that the Commission grant CVLD a waiver from the requirement to have a wholesale tariff. This waiver should be provided with the condition that should CVLD construct or operate interexchange facilities in Alaska or expand its intrastate service in Alaska, CVLD is required to file a wholesale tariff with the Commission for approval before the new intrastate services are provided or the facilities are placed into service. CVLD may also be required to provide a wholesale tariff in the future if another carrier requests CVLD to provide wholesale services.

Briefing book excludes all materials discussed in Executive Session.

CONCLUSION

Staff has reviewed the application and believes that CVLD is fit, willing, and able to provide the proposed telecommunications intrastate interexchange services. Staff therefore recommends that CVLD's application and waiver request be approved with the conditions previously discussed in the recommendation section of this memo. Further, Staff recommends that CVLD be noticed that these conditions are subject to change pending further review in Docket U-99-1.

CVTC Exhibit B

Briefing book excludes all materials discussed in Executive Session.

STATE OF ALASKA

DEPARTMENT OF COMMERCE
COMMUNITY AND ECONOMIC DEVELOPMENT
REGULATORY COMMISSION OF ALASKA

FRANK H. MURKOWSKI, GOVERNOR

701 WEST EIGHTH AVENUE, SUITE 300
ANCHORAGE, ALASKA 99501-3469
PHONE: (907) 276-6222
FAX: (907) 276-0160
TTY: (907) 276-4533
WEBSITE: www.state.ak.us/rca/

May 3, 2005

In reply refer to: Tariff Section
File: TA65-11
LO #: L0500245

Tim Rennie
General Manager
Copper Valley Telephone Cooperative, Inc.
P. O. Box 337
Valdez, Alaska 99686

Dear Mr. Rennie:

On April 28, 2005, the Commission approved the Special Contract between Copper Valley Telephone Cooperative, Inc. (CVTC) and Copper Valley Long Distance (CVLD) filed on March 18, 2005 with TA65-11, subject to the following conditions:

a) The Commission may place further conditions or limitations on the contract if good cause is shown based upon review of a complaint related to the dark fiber.

b) Should the parties choose to extend the contract beyond the two year term, CVTC will submit this Special Contract extension for review by the Commission.

The Commission granted a waiver of certification requirements, to the extent necessary, to allow CVTC to sell interexchange service for the sole purpose of the TA65-11 contract even though the utility does not hold an interexchange certificate.

The Commission also reminds CVTC that the Commission has not addressed CVTC's proposed treatment of allocable costs. Treatment of allocable costs related to this special contract will be considered if and when a review of CVTC's rates occurs, absent earlier action by the Commission.

Enclosed is a validated copy of the Special Contract between CVTC and CVLD filed on March 18, 2005 with TA65-11. The effective date is May 2, 2005.

Enclosed are validated copies of Tariff Sheet Nos. 2.3, 2.28 and 2.28.1 filed on April 6, 2005 with TA65-11. The effective date of the tariff sheets is May 2, 2005.

BY DIRECTION OF THE COMMISSION

Sincerely,

REGULATORY COMMISSION OF ALASKA

Juliana Wayman

Juliana Wayman
Chief, Tariff Section

Enclosures

cc: Michelle D. Barnett
Honchen & Uhlenkott, Inc.
800 East Dimond Blvd. Ste #3-640
Anchorage AK 99515

CVTC Exhibit C

DEPARTMENT OF COMMERCE COMMUNITY AND ECONOMIC DEVELOPMENT

Regulatory Commission of Alaska

Sarah Palin, Governor
Emil Notti, Commissioner
Anthony A. Price, Chairman

November 20, 2007

In reply refer to: Tariff Section
File: TA83-11
LO#: L0700487

Dave Dengal
General Manager
Copper Valley Telephone Cooperative, Inc. (CVTC)
P. O. Box 337
Valdez, Alaska 99686

Dear Mr. Dengal:

In its Tariff Action meeting on November 15, 2007, the Commission granted the request filed on October 2, 2007, by Copper Valley Telephone Cooperative, Inc., with TA83-11 to extend the term of the special contract between itself and Copper Valley Long Distance, Inc. for the lease of dark fiber. In TA83-11, CVTC proposed to exercise Section 13 of the special contract. Section 13 provides for the automatic renewal of the special contract on a year per year basis. The effective date of the contract extension is November 16, 2007.

BY DIRECTION OF THE COMMISSION (Commissioners Dave Harbour and Janis W. Wilson, Not Participating)

Sincerely,

REGULATORY COMMISSION OF ALASKA

Mary J. Vittone
Chief, Tariff Section

cc: Michelle D. Barnett
Honchen & Uhlenkott, Inc.
800 East Dimond Blvd. Ste #3-640
Anchorage AK 99515

701 W. 8th Avenue, Suite 300, Anchorage, Alaska 99501-3469
Telephone: (907) 276-6222 Fax: (907) 276-0160 TTY: (907) 276-4533
Website: http://rca.alaska.gov

CVTC Exhibit D

Copper Valley Long Distance, Inc.
Circuit Revenues by Year

Year	Total Private Line Revenue	Received Fom CVTC	% of Revenues CVTC
2010	2,376,781.97	724,514.05	30.48%
2011	3,590,254.85	862,514.88	24.02%
2012	4,414,813.74	858,360.08	19.44%
2013	4,706,937.82	894,188.21	19.00%
2014	5,069,851.62	455,341.29	8.98%

Summary of Low Income Support Mechanism Beneficiary Approved Audit Report: July 1, 2018 – July 31, 2018

Entity Name, State	Number of Findings	Material Findings*	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
American Broadband & Telecommunications Company, Michigan	7	• **Form 497 and NLAD Variance.** The Beneficiary claimed subscribers on the audit period subscriber listing who were not active in NLAD. • **Duplicative Support.** The Beneficiary claimed support on the Form 497 more than once for the same individual.	$489,390	$595,073	$413,967	N
True Wireless, LLC, Maryland **(Attachment A)**	3	• None.*	$78,209	$120	$120	Y
Tag Mobile LLC –KS	4	• None.*	$3,950	$185	$185	N
Gila River Telecommunications, Inc., Arizona	4	• None.*	$19,237	$980	$980	N
NTUA Wireless, LLC, New Mexico **(Attachment B)**	4	• None.*	$123,857	$181	$181	Y
Total	22		$714,643	$596,539	$415,433	

*** The audit findings are set forth in the Audit Report. Based on the dollar recovery amount, the findings are not material.**

Briefing book excludes all materials discussed in Executive Session.

True Wireless, LLC

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

USAC Audit No. LI2017BE023

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Criteria 8

EXECUTIVE SUMMARY

July 17, 2018

Mr. Kevin B. Cox, CEO
True Wireless, LLC
3124 Brother Blvd, Suite 104
Bartlett, TN 38133

Dear Mr. Cox:

DP George & Company, LLC (DPG) audited the compliance of True Wireless, LLC (Beneficiary), study area code 189018, using 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 Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit.

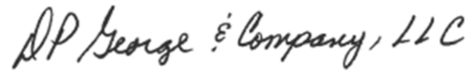
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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 disclosed three detailed audit findings (Findings) 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 the 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.

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

Sincerely,



DP George & Company, LLC
Alexandria, Virginia

cc: Wayne Scott, Vice President, Internal Audit Division
Radha Sekar, USAC Chief Executive Office
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.417(a) & 54.407(c) – Lack of Documentation: Usage Tracking. The Beneficiary's subscriber certification and recertification documentation omitted required disclosures.	$120	$120
Finding #2: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Requests. The recertification request notification did not specify that the subscriber must respond within 30 days.	$0	$0
Finding #3: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification. The non-usage notification sent to subscribers did not specify that the subscriber must cure non-usage within 30 days.	$0	$0
Total Net Monetary Effect	**$120**	**$120**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

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

SCOPE
The following chart summarizes the Lifeline Program support the Beneficiary received based on its FCC Form 497 (Form 497) for April 2017 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	8,455	$78,209

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

BACKGROUND
The Beneficiary is a competitive eligible telecommunications carrier (ETC) that operates in Maryland.

PROCEDURES

DPG performed the following procedures:

A. Form 497

DPG obtained and examined the Beneficiary's Form 497 for accuracy by comparing the amounts reported against the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files.

B. Certification and Recertification Process

DPG obtained an understanding of the Beneficiary's enrollment, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also obtained and examined certification and/or recertification documentation for 45 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Subscriber Listing

DPG obtained and examined the Beneficiary's subscriber listing and 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 Form 497 and in NLAD.
- 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 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.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 45 subscribers.

E. Independent Economic Households

DPG obtained and examined documentation to determine whether applicable subscribers satisfied the Independent Economic Household requirements.

F. Form 555

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

G. Non-Usage Process

DPG obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also examined documentation to determine whether the Beneficiary properly validated its low-income subscribers' continued use of the Lifeline-supported service.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.417(a) & 47 C.F.R. § 54.407(c) – Lack of Documentation: Non-Usage Tracking

CONDITION

DPG requested usage documentation for 45 subscribers to determine that the subscribers used their phone in the 45 days prior to the audit period. The Beneficiary did not provide usage support for three of the selected subscribers. In addition, the support provided for 10 of the subscribers only reflected incoming texts to the customer number which is not one of the five activities that qualifies as "usage" in the rules at 47 C.F.R. § 54.407(c)(2). DPG requested additional evidence from the Beneficiary to support why these 10 subscribers were not de-enrolled. The Beneficiary indicated that full call detail records for all of the 10 subscribers were no longer available. Without sufficient call record or other evidence documenting qualifying usage, DPG cannot conclude that these subscribers were eligible to receive support.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper documentation of qualifying usage.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$120	$120

DPG calculated the monetary effect by multiplying the number of subscribers where documentation was not provided (13) by the support amount requested on the April 2017 Form 497 ($9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. We further recommend that the Beneficiary implement policies and procedures to ensure it maintains sufficient call or other records to demonstrate compliance with monthly usage requirements.

BENEFICIARY RESPONSE

> True Wireless resells the telephony services of multiple underlying carriers that themselves are reselling the services of major wireless network carriers such as Sprint, T-Mobile, Verizon, etc. These carriers send subscriber data directly to True Wireless' subscriber database provided by its database vendor, Bequick, including full customer detail records ("CDRs"). Full CDRs, however, are very voluminous data files and there is a limit to how long full CDRs may be retained due to storage limits. This is not unique to True Wireless or Bequick, however. It is common throughout the telecommunications industry to only retain full CDRs for a limited period of time due to data storage limitations. True Wireless maintains full CDRs for its subscribers for six months to permit it to verify its subscribers' usage, but thereafter, it no longer has access to the CDRs. That being said, it routinely reviews its subscribers' usage and de-enrolls subscribers as appropriate.

DPG RESPONSE

The rules at 47 C.F.R. § 54.417(a) are clear that eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline program for the three full preceding calendar years and provide that documentation upon request. For this reason, DPG's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Requests

CONDITION

DPG examined the Beneficiary's recertification process used to report information on the January 2017 Form 555. We noted that the Beneficiary's recertification requests were sent via text message using a process separate from the subscriber's bill. However, the notification letter did not provide an indication that the subscriber had 30 days in which to respond. The Beneficiary must inform subscribers using clear, easily understood language, that failure to respond to the recertification request within the period specified by the rules will trigger de-enrollment from the Lifeline Program.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the recertification process.

EFFECT

DPG is unable to calculate the monetary effect for this finding, as it is not known how many subscribers did not respond in the appropriate time period as a result of the 30-day response deadline not being communicated.

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its recertification request to clearly indicate the time period specified by the rules in which subscribers must respond or they will be de-enrolled.

BENEFICIARY RESPONSE

> While the specific words "service will be disconnected 30 days from this notice" are not included in the notice provided, affected subscribers receive multiple communications at regular intervals up to and including the day the subscriber is de-enrolled. It is therefore made abundantly clear via these multiple communications at the 30-day mark and additional time intervals that the subscriber's Lifeline benefit will end should he or she fail to re-certify.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(4) indicate that the re-certification notifications sent to subscribers must indicate in writing that the subscriber's failure to respond to the notification within 30 (now 60) days will result in de-enrollment. The Beneficiary's written notification did not include language notifying subscribers of the 30 day notice period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification

CONDITION

DPG examined the Beneficiary's process for tracking and de-enrolling subscribers for the non-usage results reported on the January 2017 Form 555. The non-usage notification messages sent to subscribers via text did not clearly indicate that the subscriber had 30 days following the date of the notice to respond or use the phone. The Beneficiary must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the non-usage process.

EFFECT

There is no monetary effect for this finding, as DPG noted that while the Beneficiary did not indicate the number of days on the notification, its policy was to terminate service if non-usage was not achieved in the appropriate cure period.

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its non-usage notifications to clearly identify the number of days the subscriber has from the date of notification to cure non-usage and avoid service termination.

BENEFICIARY RESPONSE

> While the specific words "service will be disconnected 30 days from this notice" are not included in the notice provided, affected subscribers receive multiple communications at regular intervals up to and including the day the subscriber is de-enrolled. It is therefore made abundantly clear via these multiple communications at the 30-day mark and additional time intervals that the subscriber's Lifeline benefit will end should he or she fail to use the service.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(3) indicate that the non-usage notifications sent to subscribers must indicate in writing that the subscriber's failure to use the Lifeline service within the 30 (now 15) day notice period will result in service termination. The Beneficiary's written notification did not include language notifying subscribers of the 30 day notice period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

CRITERIA

	Criteria	Description
#1, #3	47 C.F.R. § 54.407(c)(2) (2015)	"After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 60 days, or who have cured their non-usage as provided for in [47 C.F.R.] § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish "usage" of the Lifeline service: (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service."
#1, #3	47 C.F.R. § 54.407(c)(2) (2016)	"After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 30 days, or who have cured their non-usage as provided for in [47 C.F.R.] § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish 'usage' of the Lifeline service: (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service; or (v) Sending a text message."
#1	47 C.F.R. § 54.417(a) (2016)	"Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request."
#2	47 C.F.R. § 54.405(e)(4) (2015)	"*De-enrollment for failure to re-certify*. Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by [47 C.F.R.] § 54.410(f) …. Prior to de-enrolling a subscriber under this paragraph, the eligible telecommunications carrier must notify the subscriber in writing separate from the subscriber's monthly bill, if one is provided, using clear, easily understood language, that failure to respond to the re-certification request within 30 days of the date of the request will trigger de-enrollment. If a subscriber does not respond to the carrier's notice of impending de-enrollment, the carrier must de-enroll the subscriber from Lifeline within five business days after the expiration of the

	Criteria	Description
		subscriber's time to respond to the re-certification efforts."
#2	47 C.F.R. § 54.405(e)(4) (2016)	"*De-enrollment for failure to re-certify*. Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by [47 C.F.R.] § 54.410(f). Prior to de-enrolling a subscriber under this paragraph, the eligible telecommunications carrier must notify the subscriber in writing separate from the subscriber's monthly bill, if one is provided, using clear, easily understood language, that failure to respond to the re-certification request will trigger de-enrollment. A subscriber must be given 60 days to respond to recertification efforts. If a subscriber does not respond to the carrier's notice of impending de-enrollment, the carrier must de-enroll the subscriber from Lifeline within five business days after the expiration of the subscriber's time to respond to the re-certification efforts."
#3	47 C.F.R. § 54.405(e)(3) (2015)	"*De-enrollment for non-usage.* Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service."
#3	47 C.F.R. § 54.405(e)(3) (2016)	"*De-enrollment for non-usage.* Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 30 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 15 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 15-day notice period will result in service termination for non-usage under this paragraph."

Briefing book excludes all materials discussed in Executive Session.

NTUA Wireless, LLC

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

USAC Audit No. LI2017BE044

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EXECUTIVE SUMMARY

July 17, 2018

Mr. Rohan Ranaraja, Director
NTUA Wireless, LLC
1001 Technology Drive
2nd Floor
Little Rock, AR 72223

Dear Mr. Ranaraja:

DP George & Company, LLC (DPG) audited the compliance of NTUA Wireless, LLC (Beneficiary), study area code 499016, using 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 Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. DPG's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope audit.

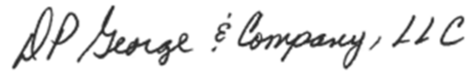
DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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 disclosed four detailed audit findings (Findings) 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 the 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.

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

Sincerely,



DP George & Company, LLC
Alexandria, Virginia

cc: Wayne Scott, Vice President, Internal Audit Division
Radha Sekar, USAC Chief Executive Office
Michelle Garber, USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures. The Beneficiary's subscriber recertification documentation omitted required disclosures.	$181	$181
Finding #2: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting. The results reported on the Form 555 were not supported by the Beneficiary's detailed recertification results.	$0	$0
Finding #3: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Request. The recertification request notification did not specify that the subscriber must respond within 30 days.	$0	$0
Finding #4: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification. The non-usage notification sent to subscribers did not specify that the subscriber must cure non-usage within 30 days.	$0	$0
Total Net Monetary Effect	**$181**	**$181**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its FCC Form 497 (Form 497) for November 2016 (the audit period):

Support Type	Number of Subscribers	Amount of Support
Lifeline	3,617	$123,857

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

BACKGROUND

The Beneficiary is a competitive eligible telecommunications carrier (ETC) that operates in New Mexico.

PROCEDURES

DPG performed the following procedures:

A. Form 497

DPG obtained and examined the Beneficiary's Form 497 for accuracy by comparing the amounts reported against the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files.

B. Certification and Recertification Process

DPG obtained an understanding of the Beneficiary's enrollment, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also obtained and examined certification and/or recertification documentation for 45 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Subscriber Listing

DPG obtained and examined the Beneficiary's subscriber listing and 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 Form 497 and in NLAD.
- 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 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.

D. Lifeline Subscriber Discounts

DPG obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 45 subscribers.

E. Independent Economic Households

DPG obtained and examined documentation to determine whether applicable subscribers satisfied the Independent Economic Household requirements.

F. Form 555

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

G. Non-Usage Process

DPG obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the Rules. DPG also examined documentation to determine whether the Beneficiary properly validated its low-income subscribers' continued use of the Lifeline-supported service.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.410(d) & 54.410(f)(2)(iii) – Improper Recertification Documentation Disclosures

CONDITION

DPG examined certification documentation for a sample of 39 subscribers and recertification documentation for a sample of 5 subscribers to determine whether the documentation contained all of the required disclosures. One additional form was also requested but was not provided by the Beneficiary. We noted that the disclosures below were omitted from the subscriber recertification documentation:

Disclosure	Number of Affected Subscribers Recertification Documentation
Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program (47 C.F.R. § 54.410(d)(1)(i))	5
A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together and share income and expenses (47 C.F.R. § 54.410(d)(1)(iii))	5
A household is not permitted to receive Lifeline benefits from multiple providers (47 C.F.R. § 54.410(d)(1)(iv))	5
Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscribers de-enrollment from the program (47 C.F.R. § 54.410(d)(1)(v))	5
Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person (47 C.F.R. § 54.410(d)(1)(vi))	5
Portion of disclosure omitted: "Under penalty of perjury" (47 C.F.R. § 54.410(d)(3))	5
The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline (47 C.F.R. § 54.410(d)(3)(i))	5
The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit (47 C.F.R. § 54.410(d)(3)(ii))	5
The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service (47 C.F.R. § 54.410(d)(3)(vi)) Form provided uses the wording "No one in my household is receiving Lifeline benefits from another provider to my knowledge"	5

Disclosure	Number of Affected Subscribers Recertification Documentation
The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge (47 C.F.R. § 54.410(d)(3)(vii))	5
The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits pursuant to §54.405(e)(4) (47 C.F.R. § 54.410(d)(3)(ix)) Form provided uses the wording "if you fail to recertify yearly, your service may be interrupted and/or you may be required to move to a different rate plan"	5
Total	**5**

The Beneficiary must list all of the required disclosures on the subscriber recertification documentation. Because the recertification documentation did not contain the required language, the subscribers did not receive the required disclosures. Therefore, DPG cannot conclude that these subscribers were eligible to receive Lifeline Program support.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing compliance with the required disclosures.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline	$181	$181

DPG calculated the monetary effect by multiplying the number of affected subscribers tested (5) by the support amount requested on the November 2016 Form 497 ($34.25) and rounded to the nearest whole dollar. DPG also included the monetary effect for the one form not provided which was for a non-tribal subscriber ($9.25).

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. We further recommend that the Beneficiary implement policies and procedures to ensure that it adheres to the disclosure requirements established by the Rules and provide the proper certification disclosures to its subscribers, as required by the Rules.

BENEFICIARY RESPONSE

The FCC's rules do not require Lifeline providers to use the exact language contained in the rules governing disclosures on certification forms. This is evidenced by Section 54.410(d), which requires carriers to use "clear, easily understood language". If carriers were required to use the exact language set forth in the rules, then there would have been no need for Section 54.410(d) to require clear, easily

understood language; instead, providers are permitted to use their own phrasing, as long as the substance of each disclosure and affirmation is conveyed using language that is clear and easily understood. Some of the disclosures listed as missing were actually included, just not using the exact language of the rule.

Beneficiary's IVR script was designed to avoid overwhelming the customer with legalistic verbiage. Beneficiary felt that some of the disclosures would be more easily understood if they were simplified, consistent with the rules. In addition, Beneficiary worked to keep the call short so it is more user-friendly. Several of the items identified as "missing" are included in beneficialry's intial certification form, and each customer is made aware of, and certifies understanding of those items prior to receiving a Lifeline benefit. A customer's benefit should not be invalidated purely because he or she listened and responded to disclosures designed for brevity and clarity.

Lastly, Beneficiary disagrees with the auditor's recommendation that USAC recover the reimbursements paid to the beneficiary for providing Lifeline to these customers. These are undoubtedly eligible subscribers, as they were confirmed as non-duplicates when they initially enrolled in NLAD. In the course of their recertification calls, these customers certified that they continue to be eligible under the program with which they originally qualified. They also certified that only one person in their household would receive Lifeline, and that providing false or fraudulent information to obtain Lifeline benefits is punishable by law. Given that these are elgibile customers who have completed substantially all required certifications, there is no justification for concluding that the support paid to the Beneficiary for serving these customers is somehow improper. The Beneficiary has provided discounted service to these customers in good faith, and should not be subject to a retroactive requirement to provide free service to legitimate customers.

However, in light of these findings, Beneficiary has updated its IVR script in a way that further complies with all applicable requirements and fully addresses the concerns noted above.

DPG RESPONSE

The rules at 47 C.F.R. § 54.410(b)(1)(i) and (c)(1)(i) specify that "an eligible telecommunications carrier must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d)." Regarding the recertification process performed by the eligible telecommunications carrier, 47 C.F.R. § 54.410(f)(2)(iii) also refers to the same requirements in paragraph (d) when identifying the information that must be obtained for the recertification process. The paragraph (d) language is specific with regard to the information that should be disclosed to, obtained from, and certified by the subscriber. The Beneficiary presents these requirements in its initial application form using language that mirrors each of the requirements in the rules. The wording used in the recertification IVR does not incorporate the language used in paragraph (d) for the disclosures identified and therefore does not clearly convey the information intended by the rules. Because the Beneficiary did not comply with all of the requirements set forth in paragraph (d), the Beneficiary is not entitled to seek reimbursement for the identified subscribers. For this reason, DPG's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.416(b) – Inaccurate Form 555 Reporting

CONDITION

DPG examined the Beneficiary's detailed non-usage results to determine whether the Beneficiary could substantiate the number of subscribers reported on the Form 555 due February 1, 2016. DPG determined that the monthly and total subscriber counts reported in Blocks P and Q as de-enrolled for non-usage on the Form 555 did not agree to the subscribers counts listed in the detailed non-usage results. DPG noted differences for 9 of the 12 months reported.

The Beneficiary must report the correct number of subscribers on the Form 555 and retain adequate documentation to support the number of subscribers reported.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct number of subscribers on the Form 555. The Beneficiary indicated that the variance was due to administrative/record keeping errors.

EFFECT

DPG is unable to calculate the monetary effect, as it does not correspond to a specific amount claimed for reimbursement on the Form 497. However, because an adequate system was not in place for collecting, reporting, and monitoring data, there is a risk that the Beneficiary may not have de-enrolled all of the subscribers it was required to de-enroll and continued to claim these subscribers for reimbursement on subsequent Forms 497.

RECOMMENDATION

DPG recommends that the Beneficiary implement an adequate system to report the correct number of subscribers on the Form 555 and maintain documentation to demonstrate compliance with the Rules.

BENEFICIARY RESPONSE

> Beneficiary has since implemented processes and better trained its employees in an effort to prevent these errors from occurring in the future.

Finding #3: 47 C.F.R. § 54.405(e)(4) – Improper Recertification Process: Recertification Request

CONDITION

DPG examined the Beneficiary's recertification process used to report information on the January 2016 Form 555. We noted that the Beneficiary's recertification requests did not specify that the subscriber must respond within 30 days of the date of the request. The Beneficiary must inform subscribers using clear, easily understood language, that failure to respond to the recertification request within 30 days of the date of the request will trigger de-enrollment from the Lifeline Program.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the recertification process.

EFFECT
DPG is unable to calculate the monetary effect for this finding, as it is not known how many subscribers did not respond in the appropriate time period as a result of the 30-day response deadline not being communicated.

RECOMMENDATION
DPG recommends that the Beneficiary revise the language in its recertification request to clearly indicate that subscribers have 30 days to respond to the request or they will be de-enrolled. DPG notes that the rules have changed since the audit period and now allow 60 days from the date of notification.

BENEFICIARY RESPONSE
> Beneficiary was fully aware of the requirement to give subscribers a 30-day notice to complete recertification. As such, the Beneficiary made efforts to reach customers a minimum of 30 days prior to the end of the recertification period. All notifications alerted customers that failure to recertify would result in de-enrollment from the Lifeline program
>
> Beneficiary has updated the language of its recertification notifications to clearly indicate the deadline for recertification based on the new rolling recertification requirements that went into effect on July 1, 2017.

DPG RESPONSE
The rules at 47 C.F.R. § 54.405(e)(4) in effect for the audit period specified that the recertification request sent to subscribers must notify subscribers in writing that failure to respond to the Beneficiary's recertification request within 30 days of the date of the request will trigger de-enrollment from the Lifeline Program. The Beneficiary's written notification did not include language notifying subscribers of the 30 day period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

Finding #4: 47 C.F.R. § 54.405(e)(3) – Improper Non-Usage Process: Non-Usage Notification

CONDITION
DPG examined the Beneficiary's process for tracking and de-enrolling subscribers for the non-usage results reported on the January 2016 Form 555. The non-usage notification messages the Beneficiary sent to subscribers, via both mail and text, stated that in order to retain service, the subscriber must begin using the phone immediately. The notifications did not clearly indicate that if the phone was not used in 30 days, service would be terminated. The Beneficiary must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage.

CAUSE
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the non-usage process.

EFFECT
There is no monetary effect for this finding, as DPG noted that while the Beneficiary did not indicate the number of days on the notification, its policy was to terminate service if non-usage was not cured 30 days after the notification.

RECOMMENDATION

DPG recommends that the Beneficiary revise the language in its non-usage notifications to clearly identify the number of days the subscriber has from the date of notification to cure non-usage and avoid service termination. DPG notes that the rules have changed since the audit period and now allow only 15 days from the date of notification.

BENEFICIARY RESPONSE

> Beneficiary was fully aware of the requirement to terminate a Lifeline customer's benefits when a customer did not use their Lifeline device over a 30 day period and did terminate Lifeline benefits to customers that did not use their device during the 30 day period. Beneficiary made efforts to reach customers via both mail and text messages and did not specifically reference a 30 day period to avoid customer confusion.
>
> Beneficiary has since updated the language of its non-usage notification to clearly indicate that subscriber must use his or her device within 15 days of the notification to avoid service termination.

DPG RESPONSE

The rules at 47 C.F.R. § 54.405(e)(3) in effect for the audit period specified that the non-usage notifications sent to subscribers must indicate in writing that the subscriber's failure to use the Lifeline service within the 30 day notice period will result in service termination. The Beneficiary's written notification did not include language notifying subscribers of the 30 day notice period to respond and therefore did not comply with the rules. For this reason, DPG's position on this finding remains unchanged.

CRITERIA

	Criteria	Description
#1	47 C.F.R. § 54.407(a) (2015)	"Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier, based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month."
#1	47 C.F.R. § 54.410(b)(1)(i), (c)(1)(i) (2015)	"(b) *Initial income-based eligibility determination.* (1) Except where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility when a prospective subscriber seeks to qualify for Lifeline or using the income-based eligibility criteria provided for in § 54.409(a)(1) or (a)(3) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber, unless the carrier has received a certification of eligibility from the prospective subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed eligibility... (c) *Initial program-based eligibility determination.* (1) Except where a state Lifeline administrator or other state agency is responsible for the initial determination of a subscriber's eligibility when a prospective subscriber seeks to qualify for Lifeline or using the program-based eligibility criteria set forth in § 54.409(a)(2), (a)(3) or (b) an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility..."
#1	47 C.F.R. § 54.410(d) (2015)	"(d) *Eligibility certifications.* Eligible telecommunications carriers and state Lifeline administrators or other state agencies that are responsible for the initial determination of a subscriber's eligibility for Lifeline must provide prospective subscribers Lifeline certification forms that in clear, easily understood language: (1) Provide the following information: (i) Lifeline is a federal benefit and that willfully making false statements to obtain the benefit can result in fines, imprisonment, de-enrollment or being barred from the program;… (iii) A household is defined, for purposes of the Lifeline program, as any individual or group of individuals who live together and share income and expenses; (iv) A household is not permitted to receive Lifeline benefits from multiple providers; (v) Violation of the one-per-household limitation constitutes a violation of the Commission's rules and will result in the subscribers de-enrollment from the program; (vi) Lifeline is a non-transferable benefit and the subscriber may not transfer his or her benefit to any other person. (2) Require each prospective subscriber to provide the following information:…

	Criteria	Description
		(ii) The subscriber's full residential address;… (iv) The subscriber's billing address, if different from the subscriber's residential address; (v) The subscriber's date of birth; (vi) The last four digits of the subscriber's social security number, or the subscriber's Tribal identification number, if the subscriber is a member of a Tribal nation and does not have a social security number; (vii) If the subscriber is seeking to qualify for Lifeline under the program-based criteria, as set forth in § 54.409, the name of the qualifying assistance program from which the subscriber, his or her dependents, or his or her household receives benefits; (viii) If the subscriber is seeking to qualify for Lifeline under the income-based criterion, as set forth in § 54.409, the number of individuals in his or her household. (3) Require each prospective subscriber to certify, under penalty of perjury, that: (i) The subscriber meets the income-based or program-based eligibility criteria for receiving Lifeline; (ii) The subscriber will notify the carrier within 30 days if for any reason he or she no longer satisfies the criteria for receiving Lifeline including, as relevant, if the subscriber no longer meets the income-based or program-based criteria for receiving Lifeline support, the subscriber is receiving more than one Lifeline benefit, or another member of the subscriber's household is receiving a Lifeline benefit;… (iv) If the subscriber moves to a new address, he or she will provide that new address to the eligible telecommunications carrier within 30 days… (vi) The subscriber's household will receive only one Lifeline service and, to the best of his or her knowledge, the subscriber's household is not already receiving a Lifeline service; (vii) The information contained in the subscriber's certification form is true and correct to the best of his or her knowledge;… (ix) The subscriber acknowledges that the subscriber may be required to re-certify his or her continued eligibility for Lifeline at any time, and the subscriber's failure to re-certify as to his or her continued eligibility will result in de-enrollment and the termination of the subscriber's Lifeline benefits."
#1	47 C.F.R. § 54.410(f)(2)(iii) (2015)	"In order to re-certify a subscriber's eligibility, an eligible telecommunications carrier must confirm a subscriber's current eligibility to receive Lifeline by: … Obtaining a signed certification from the subscriber that meets the certification requirements in paragraph (d) of this section."
#2	47 C.F.R. § 54.416(b) (2015)	"All eligible telecommunications carriers must annually provide the results of their re-certification efforts, performed pursuant to [47 C.F.R.] § 54.410(f), to the Commission and the Administrator."
#2	Annual Lifeline Eligible Telecommunications	"Block Q Report the number of subscribers de-enrolled for non-usage for that

	Criteria	Description
	Carrier Certification Form Instructions, November 2014, OMB 3060-0819 (November 2014), at 6 (Form 555 Instructions)	month as well as a total for the number of subscribers de-enrolled from non-usage for the year."
#3	47 C.F.R. § 54.405(e)(4) (2015)	"*De-enrollment for failure to re-certify.* Notwithstanding paragraph (e)(1) of this section, an eligible telecommunications carrier must de-enroll a Lifeline subscriber who does not respond to the carrier's attempts to obtain re-certification of the subscriber's continued eligibility as required by [47 C.F.R.] § 54.410(f)."
#4	47 C.F.R. § 54.405(e)(3) (2015)	"*De-enrollment for non-usage.* Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as 'usage' is defined in [47 C.F.R.] § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service."
#4	47 C.F.R. § 54.407(c)(2) (2015)	"After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the service within the last 60 days, or who have cured their non-usage as provided for in 47 C.F.R. § 54.405(e)(3). Any of these activities, if undertaken by the subscriber will establish 'usage' of the Lifeline service: (i) Completion of an outbound call; (ii) Purchase of minutes from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; or (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving the Lifeline service."

Summary of Low Income Support Mechanism Beneficiary Approved Audit Reports: August 1, 2018 – August 31, 2018

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Global Connection of America	2	• No material findings*	$19,527	$305	$305	N
GCI Communications Corp.	1	• No material findings.*	$923,688	$0	$0	N
Guam Telephone Authority	0	• No findings.	$10,453	$0	$0	N/A
Amerimex Communications Corp.	0	• No findings.	$39,664	$0	$0	N/A
Total	**3**		**$993,332**	**$305**	**$305**	

*** The audit findings are set forth in the Audit Report. Based on the dollar recovery amount, the findings are not material.**