Universal Service Administrative Co.

High Cost and Low Income Open Session

Audit Reports Briefing Book

Monday, July 27, 2020

11:30 a.m. - 12:00 p.m. Eastern Time

Universal Service Administrative Company Offices

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

Washington, DC 20005

Summary of High Cost Support Mechanism Beneficiary Audit Report Released: May 6, 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Skyline Telecom Inc. (WA) Attachment A	2	• Inadequate Documentation – Assets and Expense: The Beneficiary was unable to provide adequate documentation to support a portion of the assets and an expense selected for testing.	$584,077	$4,905	$4,905	Y
Total	**2**		**$584,077**	**$4,905**	**$4,905**	

Attachment A

HC2017LR016

Available for Public Use

Universal Service
Administrative Co.

Skyline Telecom Inc.

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR016

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Universal Service
Administrative Co.

EXECUTIVE SUMMARY

January 22, 2020

Delinda Kluser
General Manager
Skyline Telecom Inc.
PO Box 609
Mt. Vernon, OR 97865

Dear Delinda Kluser:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Skyline Telecom Inc. (Beneficiary), study area code 520581 disbursements for the year ended December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings (Findings), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with 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 Federal Communication Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.320(b) – Inadequate Documentation – Assets and Expense: The Beneficiary was unable to provide adequate documentation to support a portion of the assets and an expense selected for testing.	$3,235
Finding #2: 47 C.F.R. § 32.27(a) (b) – Improper Affiliate Transactions: The Beneficiary did not properly record an affiliate transaction at the lower of cost or fair market value.	$1,670
Total	**$4,905**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery of the High Cost support in the amount noted in the chart below from the Beneficiary for SAC 520581. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC Management recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules.

	HCL (A)	ICLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$2,216	$1,019	$0	$3,235	N/A
Finding #2	$936	$734	$0	$1,670	N/A
Mechanism Total	**$3,152**	**$1,753**	**$0**	**$4,905**	

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

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

[2] *Id.*

SCOPE

In the following chart, USAC summarizes the High Cost Program support included within the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2014-2015	2016	$200,742
High Cost Loop (HCL)	2014-2015	2016	$224,717
Interstate Common Line Support (ICLS)	2014	2016	$118,151
Safety Net Additive (SNA)	2014	2016	$40,467
Total			**$584,077**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operating in Washington state. The Beneficiary is wholly owned by North State Telephone. Oregon Telephone is Noth State's parent company and it majorily owns, if not wholly owns, seven other telephone companies.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer assisted auditing techniques to analyze the data files to determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.
- The data files contained non-revenue producing or non-working loops.
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

G. Form 481

AAD obtained and examined the Beneficiary's FCC Form 481 (Form 481) for accuracy by comparing select reported to the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets and Expense

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary recorded its cost study balances, including a sample of assets totaling $1,532,069, and expenses, including a sample of expenses totaling $101,472, to the proper General Ledger account for High Cost Program purposes. Although the Beneficiary tracked its assets and expenses, the Beneficiary was unable to provide documentation to support a portion of the assets and expenses selected for testing, which resulted in an overstatement of certain assets and expense amounts, as summarized in the following table.

Exceptions Noted	Type	Value of Sample in Error	$ Value of Exceptions	Account[3]
Inadequate Documentation – Missing Invoices	Asset	$1,490,814	$36,477	2410
Inadequate Documentation – Missing Invoices	Asset	$41,255	($404)	2230
Inadequate Documentation – Unsupported Labor Distribution	Expense	$5,917	$4,035	6410
Total		**$1,537,986**	**$40,108**	

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded assets and expenses in the proper amount and to the proper General Ledger account. Because the Beneficiary did not provide adequate documentation to substantiate its assets and expenses, AAD concludes that the assets and expense transactions were not recorded in the proper amount and to the proper General Ledger account.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate assets and expenses were recorded in the proper amount and to the proper General Ledger account. The Beneficiary informed AAD that it did not obtain all the supporting documentation related to the Silverton exchange upon purchase for the buried cable assets.[4] In addition, the Beneficiary did not maintain all documentation to support the Central Office Equipment reported in its General Ledger.[5]

EFFECT

AAD calculated the monetary effect for this finding by deducting the unsupported portions of the asset and expense transactions from the total amount reported by the Beneficiary in its respective and related accounts

[3] *See* 47 C.F.R. § 32.2230 (2014); *see* 47 C.F.R. § 32.2410 (2014); *see* 47 C.F.R. § 32.6410 (2014).
[4] The Silverton exchange was originally Beaver Creek Telephone Co. (dba as Timberline Telecom), which merged with Skyline Telecom in 2011. AAD performed asset testing for 100% of the assets in the Silverton exchange.
[5] Beneficiary responses to audit exception summary, received September 5, 2018.

on the USF Data Collection Form (HCL Form) and ICLS Revenue Requirement (Part 36 Cost Study). The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$2,216
ICLS	$1,019
CAF ICC	$0
Total	**$3,235**

RECOMMENDATION

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

The Beneficiary must implement policies and procedures to ensure that it retains adequate records to demonstrate assets and expenses are recorded in the proper amount and to the proper General Ledger account. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

The Beneficiary purchased the Silverton exchange in 2005. The prior owners had started to build-out the exchange, but it was not operational at the time of the acquisition. The Beneficiary gathered as much information as was available at the time of purchase for all assets and expenses. Additional contact was made with vendors to try and gather missing information. All available documentation was provided at the time of the inquiry. All documentation has been maintained by the Beneficiary from the date of acquisition forward with one exception. The Beneficiary did not keep the detailed receipts on a travel expense report. The cover sheet for the report was maintained, but not the detail to support the cover sheet. The Beneficiary has changed the policy for maintaining documentation and has since kept all necessary detail for assets and expenses. This has eliminated the issue of no supporting documentation. The Beneficiary maintains all detail for asset additions in its permanent files.

AAD RESPONSE

The Beneficiary stated in its response that "[t]he Beneficiary gathered as much information as was available at the time of the purchase for all assets and expenses." Pursuant to 47 § 32.2000(b), the Beneficiary must, to the best of its ability, account for its assets reported for High Cost purposes at original cost. If the original cost is not known, the Beneficiary may use an estimated market value at the time of the acquisition as a basis to account for its acquired assets; however, the Beneficiary must maintain documentation to explain the particulars of such estimates. In addition, pursuant to 47 § 54.320, all beneficiaries must maintain documentation for ten years from the receipt of funding.

The Beneficiary stated in its response that "[a]ll documentation has been maintained by the Beneficiary from the date of acquisition forward with one exception. The Beneficiary did not keep the detailed receipts on a travel expense report." AAD does not agree with the Beneficiary's assertion. While AAD notes that the Beneficiary stated that it updated its documentation retention policy, AAD maintains its finding for the unsupported assets and expense transactions.

Finding #2: 47 C.F.R. § 32.27 (a)(b) – Improper Affiliate Transactions

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary properly recorded its cost study balances, including a sample of 36 affiliate transactions for High Cost Program purposes. The Beneficiary overstated account 6112[6] by $6,120 because the Beneficiary did not properly record an affiliate transaction at the lower of cost or fair market value. The Beneficiary used its affiliate's original purchase price instead of the value of the fully depreciated vehicle at the inception of the lease, which was lower. The Beneficiary must record all of its affiliate transactions at the lower of cost (i.e. fully distributed cost) or fair market value for High Cost Program purposes. Because the Beneficiary did not record the affiliate transaction at the lower of cost or fair market value, AAD concluded that the Beneficiary's leased vehicle was not recorded in the proper amount in its General Ledger.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly determine whether its vehicle leased from an affiliate was charged at the lower of fair market value and fully distributed cost and report accurate information for High Cost Program purposes. The Beneficiary informed AAD that it had used the Kelly Blue Book to determine the value of the vehicle but did not maintain a copy of the value.[7]

EFFECT

AAD calculated the monetary effect for this finding by deducting the entire amount of the lease from the total amount reported by the Beneficiary on the HCL Form and Part 36 Cost Study. The results are summarized below:

Support Type	**Monetary Effect and Recommended Recovery**
HCL	$936
ICLS	$734
CAF ICC	$0
Total	**$1,670**

RECOMMENDATION

AAD recommends USAC Management seek recovery of the amounts identified in the Effect section above. In addition, AAD recommends that High Cost Program Management considers whether additional corrective action is necessary for the support disbursed for the years that corresponds to the vehicle lease.

The Beneficiary must establish adequate controls to ensure that the lower of fair market value and fully distributed cost is assessed by their affiliates for assets or services provided to the Beneficiary. The Beneficiary may learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

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6 *See* 47 C.F.R. § 32.6112 (2014);

7 Beneficiary response to the audit exception summary, received September 5, 2018.

BENEFICIARY RESPONSE

The Beneficiary has an adequate understanding of affiliated transactions for High Cost Support purposes. The Beneficiary understands that when assets are sold by or transferred to an affiliate that both fair market value and net book value must be evaluated. These values are used to determine both a ceiling and a floor cost. The Beneficiary did not maintain the documentation which supported the fair market value. The Beneficiary calculated a Kelly Blue Book value on the vehicle on the date the lease was entered into. However, this documentation was not maintained, nor can it be re-created. Affiliates of the Beneficiary have transferred assets since this transaction. All documentation has been maintained to support the dollar value of the sale and/or lease price.

AAD RESPONSE

The Beneficiary stated in its response that "[t]he Beneficiary did not maintain the documentation which supported the fair market value. The Beneficiary calculated a Kelly Blue Book value on the vehicle on the date the lease was entered into. However, this documentation was not maintained, nor can it be re-created." AAD agrees that using a Kelly Blue Book calculated value is a good approach to determining the fair market value of the vehicle to evaluate the transaction, but the Beneficiary must maintain such documentation in compliance with the Rules. AAD notes that the relevant issue of this finding is that the Beneficiary used the affiliate's original purchase price of the vehicle instead of the depreciated value as the cost basis for the transaction. Pursuant to the Rules, Beneficiaries must value the affiliate transactions at the lower of cost or fair market value. The Beneficiary must ensure that it takes the proper approach to determine the cost of the vehicle.

In addition, the Beneficiary stated in its response that the "[a]ffiliates of the Beneficiary [sic]have transferred assets since this transaction" and "[a]ll documentation has been maintained to support the dollar value of the sale and/or lease price." Based on the Beneficiary's statement, AAD is not certain whether the Beneficiary bought the vehicle or continues to lease the vehicle from the affiliate, or whether the Beneficiary no longer has possession of the asset. Nonetheless, for all asset transfers from the affiliate to the Beneficiary, the Beneficiary must ensure that it considers the depreciated value of the asset in the valuation of the transaction at the lower of net book cost or fair market value and maintains adequate documentation for High Cost Program purposes. Thus, AAD's conclusion and recommendation remains.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.320(b) (2014)	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.
#1	47 C.F.R. § 32.2230 (2014)	This account shall be used by Class B companies to record the original cost of radio systems and circuit equipment of the type and character required of Class A companies in Accounts 2231 and 2232.
#1	47 C.F.R. § 32.2410 (2014)	This account shall be used by Class B companies to record the original cost of cable and wire facilities of the type and character required of Class A companies in Accounts 2411 through 2441.
#1	47 C.F.R. § 32.6410 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6411 through 6441.
#2	47 C.F.R. § 32.27(a)(b) (2014)	(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section. (b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost.
#2	47 C.F.R. § 32.6112(a)(b) (2014)	(a) This account shall include costs of fuel, lubrications, license and inspection fees, washing, repainting, and minor accessories. Also included are the costs of personnel whose principal job is operating motor vehicles, such as chauffeurs and shuttle bus drivers. The costs of users of motor vehicles whose principal job is not the operation of motor vehicles shall be charged to accounts appropriate for the activities performed. (b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

Summary of High Cost Support Mechanism Beneficiary Audit Report Released: June 3, 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Zenda Telephone Company, Inc. **Attachment B**	2	• No significant findings.	$522,434	$2,418	$2,418	Y
Farber Telephone Company **Attachment C**	1	• No significant findings.	$434,402	$0	$0	N
Agate Mutual Telephone Cooperative Association **Attachment D**	4	• Inadequate Documentation - Asset, Affiliates and Expenses. The Beneficiary was unable to provide adequate documentation to support a portion of the assets, affiliates, and expenses selected for testing.	$331,807	$2,303	$2,303	N
Elsie Communications, Inc. **Attachment E**	3	• No significant findings.	$327,622	($4,062)	$0	Y
Orchard Farm Telephone Company **Attachment F**	4	• Lack of Documentation: Affiliate Transactions. The Beneficiary was unable to provide sufficient and appropriate documentation for certain affiliate transactions recorded.	$128,419	$21,847	$21,847	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
		• Inaccurate Net Non-Current Deferred Income Taxes. The Beneficiary did not report accurate net non-current deferred operating income taxes.				
Total	**14**		**$1,744,684**	**$22,506**	**$26,568**	

Attachment B

HC2017LR017

Zenda Telephone Company, Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR017

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EXECUTIVE SUMMARY

March 23, 2020

Kathy Price
General Manager
Zenda Telephone Company, Inc.
208 N. Main Street
Zenda, KS 67159-0128

Dear Kathy Price:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Zenda Telephone Company, Inc. (Zenda), study area code 411852 disbursements for the year ended December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings (Findings) as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with 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 Federal Communication Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.320(b) Inadequate Documentation - Asset and Expense Transactions. The Beneficiary did not provide adequate supporting documentation to substantiate a portion of the assets' value or to demonstrate that the allocation and affiliate valuation methodology used were properly reported.	$2,418
Finding #2: 47 C.F.R. § 54.313(a)(8) - Improper Form 481 Reporting. The Beneficiary failed to list its affiliates on their From 481.	$0
Total	**$2,418**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 411852 for the High Cost Program support amount noted in the chart below. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	ICLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$2,902	$(484)	$0	$2,418	
Finding #2	$0	$0	$0	$0	
Mechanism Total	**$2,902**	**$(484)**	**$0**	**$2,418**	

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2015-2015	2016	$87,612
High Cost Loop (HCL)	2014-2015	2016	$296,768
Interstate Common Line Support (ICLS)	2014	2016	$138,054
Total			**$522,434**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Kansas. Zenda Telephone Company, Inc. is wholly owned by TelAtlantic Communications, Inc., which in majority owns, if not wholly owns, four other telephone companies.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer assisted auditing techniques to analyze the data files and determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.
- The data files contained non-revenue producing or non-working loops.
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

G. Form 481

AAD obtained and examined the Beneficiary's FCC Form 481 (Form 481) for accuracy by comparing select information reported to the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Asset and Expense Transactions

CONDITION

AAD obtained and examined the general ledger, Continuing Property Record (CPR), and cost study balances to determine whether the Beneficiary reported accurate asset and expense balances, including a sample of 34 asset transactions totaling $2,301,553 and 24 expense transactions totaling $108,199, for High Cost Program purposes. For 23 of the 34 asset transactions, totaling $1,792,398, the Beneficiary did not provide adequate supporting documentation to substantiate a portion of the assets' value.[3] In addition, 2 of the 24 expense transactions, totaling $4,429, relate to affiliate transactions and the Beneficiary did not have supporting documentation to demonstrate that the allocation and affiliate valuation methodology used were properly reported.[4]

Exceptions Noted	Type	Value of Samples With Exceptions	Total Amount of Transactions in Exception	Account Affected[5]
Missing Invoices	Asset	$1,792,398	$32,819	Buried Cable - Account 2423
Allocation and Valuation Methodology	Expense	$899	$3,088[6]	General Purpose Computers Expense – Account 6124
Allocation and Valuation Methodology	Expense	$3,530	$24,988[7]	Executive Expense – Account 6711
Total		**$1,796,827**	**$60,895**	

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its assets and expenses in the proper amount and to the proper General Ledger account. Because the Beneficiary did not provide adequate documentation to substantiate these asset and expense transactions, AAD concludes that the applicable asset and expense balances were not accurately reported.

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[3] *See* 47 C.F.R. § 32.2000(D).
[4] *See* 47 C.F.R. § 32.27 (2014).
[5] *See* 47 C.F.R. § 32.2423 (2014); 47 C.F.R. § 32.6124 (2014); 47 C.F.R. § 32.6711 (2002).
[6] The total amount of transactions in exception was calculated by multiplying the amount of transactions in exception by twelve months.
[7] *Id.*

CAUSE

The Beneficiary did not have an adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate assets and expenses were recorded in the proper amount and to the proper General Ledger accounts, and to demonstrate that the allocation and affiliate valuation methodology was appropriate for commonly shared expenses. The Beneficiary informed AAD that it believed it provided documentation to support the overhead portion of the asset transactions in question.[8] In addition, the Beneficiary informed AAD that it did not maintain all documentation to support the allocation of the expense transactions in question and going forward will review its cost allocations and methodology and implement procedures to ensure that the proper documentation to support its allocations is retained.[9]

EFFECT

Support Type	Monetary Effect & Recommended Recovery
HCL	$3,583
ICLS	(285)
CAF ICC	0
Total	**$3,298**

RECOMMENDATION

AAD recommends USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must retain adequate records. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

#1 Missing Invoices

Zenda will review its policies and procedures to ensure the proper recording of assets. This will include a review related to the retention of invoices, labor, material and overheads associated with work orders to support its assets. Additionally, Zenda will strengthen its processes to include a final review as part of its closing of all work orders. As USAC noted above, Zenda believes in this instance it provided adequate internal documents to support Zenda's internal labor overheads. On May 28, 2019 and July 12, 2019 Zenda sought clarification from USAC via email requesting more information on specific documentation USAC needed to justify internal Zenda payroll overheads. Zenda received a response via email from USAC on July 18, 2019 stating they would follow up on Zenda's question. Zenda did not receive a response

[8] Beneficiary responses to audit results summary, received March 26, 2019.
[9] *Id*.

providing further clarification. At this time Zenda believes appropriate documentation was provided to support the $32,819 in labor overheads.

#2 & #3 Allocation and Valuation Methodology

Zenda will review its cost allocations and methodology and implement procedures to ensure that the proper documentation to support its allocations is retained. Additionally, Zenda will review with its cost consultant, JSI, and then implement procedures to establish Fully Distributed Cost for allocations for services provided by its affiliate in accordance with affiliate transaction rules.

Additional Response:

While the company does not dispute the underlying facts that support the findings, we do disagree with the classification of the amount as a "monetary recovery" amount. The total findings should be reflected as a reduction to the total uncapped universal service support amount. Only to the extent the uncapped amount is reduced below the capped amount should the monetary recovery amount be adjusted. If the capped amount is not impacted as result of the reduction in the uncapped amount there should be no monetary recovery from company. This approach, in our opinion, is more in line with the intent of FCC rules that limit support based on a capped amount. The normal process for determining the amount of support is to first determine the total uncapped support and then that amount is compared to the calculated capped support. Only if the total uncapped amount exceeds the capped amount calculated is there any adjustment to support. That adjustment is only to bring the amount of support in line with the calculated capped amount. So, in this instance we should first adjust the total uncapped support and recalculate the amount that exceeds the capped amount. If and only if this "new" capped calculation is less than the original capped support paid, i.e. the company received more funds than they should have, then there should be a monetary impact. To do otherwise is to penalize the company twice, first by reducing the amount of eligible support to the capped amount then further reducing the capped support by the findings. To support this position we have included the relevant sections of 47 C.F.R. below:

Finding	Criteria	Description
#1	47 C.F.R. § 54.302	**Monthly per-line limit on universal service support.** (a) Beginning July 1, 2012 and until June 30, 2013, each study area's universal service monthly support (not including Connect America Fund support provided pursuant to §54.304) on a per-line basis shall not exceed $250 per-line plus two-thirds of the difference between its uncapped per-line monthly support and $250. Beginning July 1, 2013 and until June 30, 2014, each study area's universal service monthly support on a per-line basis shall not exceed $250 per-line plus one third of the difference between its uncapped per-line monthly support and $250. Beginning July 1, 2014, each study area's universal service monthly per-line support shall not exceed $250. Beginning July 1, 2019, until June 30, 2021, each study area's universal service monthly per-line support shall not exceed $225. Beginning July 1, 2021, each

		study area's universal service monthly per-line support shall not exceed $200. (b) For purposes of this section, universal service support is defined as the sum of the amounts calculated pursuant to §§54.1304, 54.1310, 54.305, and 54.901 through 54.904. Line counts for purposes of this section shall be as of the most recent line counts reported pursuant to §54.903(a)(1). (c) The Administrator, in order to limit support for carriers pursuant to paragraph (a) of this section, shall reduce safety net additive support, high-cost loop support, safety valve support, and Connect America Fund Broadband Loop Support in proportion to the relative amounts of each support the study area would receive absent such limitation.

To provide further support justification, we provide the following analysis:

Zenda's uncapped universal service support in 2016 amounted to $627,000. Zenda exceeded the $250 monthly per-line limitation in effect in 2016, as such, the "Administrator" withheld $192,012 of Zenda's universal service support. As a result, Zenda received $434,988 in capped universal service support, or $250 per month per-line, in the 2016 disbursement period. If the monetary effect remains a recommended recovery, this lowers Zenda's capped universal service support to $431,690 ($434,988 less $3,298), which results in Zenda's capped universal service support in 2016 amounting to a monthly per-line limit of $248.09, which is a clearly below the cap of $250/line mandated by the FCC and 47 C.F.R. § 54.302. If the FCC had wanted companies that exceeded the cap to receive less than the $250 per month per-line they could have easily indicated that in the rules.

The calculation of any monetary effect as a result of findings in this audit should consider 47 C.F.R. § 54.302 given its applicability to Zenda during the period under review. Zenda advocates the "Total Amount of Transactions in Exception" be applied to Zenda's uncapped universal service support in 2016. To do anything otherwise is clearly contrary to the FCC stated objective of capping the amount of support at $250 per month per-line. If one were to use USAC's finding amount of $3,298 to reduce Zenda's uncapped universal service support, the result would be to reduce the uncapped amount to $623,702 ($627,000 less $3,298). This lessens the amount to which Zenda exceeded the $250 monthly per-line limitation to $188,714 but would have zero impact on the capped amount of support received. The recommended monetary recovery of $3,298 does not cause Zenda to fall below the $250 per month per-line limitation. Given this fact, the $3,298 should be stated as a "monetary effect" on uncapped universal service support rather than a "recommended monetary recovery." Zenda did not receive the universal service support being sought as monetary recovery in this audit.

The treatment of the $250 monthly per-line limitation described above is consistent with the application of other universal service support limitations conducted in prior USAC audits and more closely follows what we feel is the intent of the pertinent FCC rules.

AAD RESPONSE

To address the Beneficiary's concerns about the lack of clarification provided regarding the inadequacy of the documentation, AAD reexamined the previously provided documentation and believes that it is sufficient to support the amounts claimed. AAD came to this conclusion by observing that the majority of the provided documentation was for "labor payroll distribution" charges. AAD had performed separate testing focused on labor payroll distribution as part of this audit and noted no exceptions. AAD finds that the documentation originally provided was reliable and sufficient and is therefore removing this portion of the finding. The monetary effect has been updated in the table below to reflect this revision.

Additionally, the Beneficiary expressed concerns about being "penalized twice" as the result of this finding. AAD's recalculation of the monetary effect of findings takes the monthly per-line limitation into account. By including these limitation factors into the calculation, the monetary effect is therefore reduced, and keeps the carrier under the cap. Finally, AAD had held phone conversations with the Beneficiary's cost consultant confirming that the USF Line Cap limitation is factored into the final monetary effect calculation.[10]

REVISED EFFECT

Support Type	Monetary Effect & Recommended Recovery
HCL	$2,902
ICLS	($484)
CAF ICC	0
Total	**$2,418**

Finding #2: 47 C.F.R. § 54.313(a)(8) – Improper Form 481 Reporting

CONDITION

AAD obtained and examined the Beneficiary's FCC Form 481 to determine whether the Beneficiary reported accurate and complete information. The Beneficiary included the following entities, TelAtlantic Communications, Inc., Miller Telephone Company, West Side Telephone Company, Communications Plus, Inc., and Westco Internet Company, as its affiliates in their organizational chart, financial statement footnotes and website of TelAtlantic Communications, Inc., the Beneficiary's parent company. However, these entities were not listed as affiliates on the Beneficiary's FCC Form 481. The Beneficiary must annually report information required in the FCC Form 481 including the name of the Beneficiary's holding company, operating companies, affiliates, and any branding, as well as universal service identifiers for each such entity by Study Area Codes. Thus, AAD concludes that the Beneficiary did not report accurate and complete information on the FCC Form 481.

[10] AAD discussions via phone call held on March 10, 2020, and March 11, 2020.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the information that must be reported on the FCC Form 481. The Beneficiary informed AAD that regrettably there was a fair amount of confusion on what should be included in the FCC Form 481 as the Beneficiary is affiliated with other carriers indirectly and only through common ownership by the Holding Company or one of the Holding Company's properties.[11] The Beneficiary stated that it will work closely with its consultant to establish procedures to review the final FCC Form 481 and its requirements in conjunction with the Form 481 definition of affiliates.[12]

EFFECT

There is no monetary effect for this finding. However, because appropriate information was not included in the FCC Form 481, there is a risk that the Beneficiary may not be reporting the required information to the Administrator.

RECOMMENDATION

AAD recommends that the Beneficiary examine the Rules detailed in the Criteria section of this report to familiarize itself with the FCC Form 481 reporting requirements. In addition, the Beneficiary can learn more about FCC Form 481 reporting requirements on USAC's website at https://www.usac.org/high-cost/annual-requirements/file-fcc-form-481/.

BENEFICIARY RESPONSE

> Zenda will work closely with its consultant, JSI to establish procedures to review the final Form 481 and its requirements in conjunction with the Form 481 definition of affiliates. With respect to USAC's statement "there is a risk that the Beneficiary may not be reporting the required information to the Administrator," the company, as indicated, agrees there were errors with data as filed. However, these errors were not intentional, nor did they result in any material misstatement of any facts that could have had monetary impacts. Additionally, due to the "newness" of requirements when this data was initially filed and the fact that guidance from USAC, FCC, NECA and others was, at times confusing, we believe these factors may have contributed to the errors. Since these filings the company continues to monitor and improve processes to minimize these types of issues for all filings, not just 481 data.

[11] Beneficiary responses to audit results summary, received March 26, 2019.
[12] *Id.*

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.27(2014)	"Transactions with affiliates. (a) Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section. (b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost. (2) Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going forward basis in accordance with the affiliate transactions rules on a going forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost. (c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly filed agreements or statements. Non tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or

Finding	Criteria	Description
		transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost. (2) Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive. (3) Threshold. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. (d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied."
#1	47 C.F.R. § 54.320(b) (2014).	"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."
#1	47 C.F.R. § 32.2000(D)(2014)	"Telecommunications plant accounts shall at all times disclose the original cost of all property in service. When any item of property subject to plant retirement accounting is worn out, lost, sold, destroyed, abandoned, surrendered upon lapse of title, becomes permanently unserviceable, is withdrawn or for any other reason is retired from service, the plant accounts applicable to that item shall be credited with the original cost of the plant retired whether replaced or not (except as provided for minor items in paragraph)."

Finding	Criteria	Description
#1	47 C.F.R. § 32.2423 (2014)	"Buried cable. (a) 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. Subsidiary record categories, as defined below, are to be maintained for nonmetallic buried cable and metallic buried cable. (1) Nonmetallic cable. This subsidiary record category shall include the original cost of optical fiber cable and other associated material used in constructing a physical path for the transmission of telecommunications signals. (2) Metallic cable. This subsidiary record category shall include the original cost of single or paired conductor cable, wire and other associated material used in constructing a physical path for the transmission of telecommunications signals. (b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of cable and wire facilities shall be included in the account chargeable with such construction."
#1	47 C.F.R. § 32.6124 (2014)	"General purpose computers expense. This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also §32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account."
#1	47 C.F.R. § 32.6711 (2002)	"Executive. This account shall include costs incurred in formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board designated officers of the company and their office staffs, e.g., secretaries and staff assistants."
#2	47 C.F.R. § 54.313(a)(8)(2014).	"Annual reporting requirements for high-cost recipients. (a) Any recipient of high-cost support shall provide the following, with the information and data required by paragraphs (a)(1) through (7) of this section separately broken out for both voice service and broadband service: (8) The recipient's holding company, operating companies, affiliates, and any branding (a ''dba,'' or ''doing-business-as company'' or brand designation), as well as universal service identifiers for each such entity by Study Area Codes, as that term is used by the Administrator. For purposes of this paragraph, ''affiliates'' has the meaning set forth in section 3(2) of the Communications Act of 1934, as amended."

Attachment C

HC2017LR021

Farber Telephone Company

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

USAC Audit No. HC2017LR021

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EXECUTIVE SUMMARY

March 17, 2020

Mr. Charles Crow
President
Farber Telephone Company
Main & Linn Streets
Farber, MO 63345

Dear Mr. Crow:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Farber Telephone Company (Beneficiary), study area code 421876 disbursements for the year ended December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit findings (Finding), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with 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 Federal Communication Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Teleshia Delmar

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery
Finding #1: 47 C.F.R. § 36.3(e) – Improper Traffic Allocation Factors. The Beneficiary did not develop its category relationships and allocation factors based on the 12 months subsequent to its conversion to cost status.	$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 421876. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

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 High Cost Program support that was included in the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2014-2015	2016	$43,530
High Cost Loop (HCL)	2014	2016	$232,566
Interstate Common Line Support (ICLS)	2014	2016	$158,306
Total			**$434,402**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer assisted auditing techniques to analyze the data files and determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.
- The data files contained non-revenue producing or non-working loops.
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

G. Form 481

AAD obtained and examined the Beneficiary's FCC Form 481 (Form 481) for accuracy by comparing select reported to the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 36.3(e) – Improper Traffic Allocation Factors

CONDITION

AAD obtained and examined traffic study documentation[1] to determine whether the Beneficiary applied the proper frozen jurisdictional traffic allocation factors when it separated its costs for High Cost Program purposes. Based on its documentation, in 2012, when the Beneficiary converted from an Average Schedule Company status to a Cost Company status, it calculated its traffic studies using 2010 and 2011 data, instead of using data for the 12 months subsequent to its conversion to Cost Company status, as required by program rules. Thus, AAD concludes that the Beneficiary did not apply the proper frozen jurisdictional traffic allocation factors.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the appropriate time to properly study its traffic during the period subsequent to its conversion to Cost Company status. The Beneficiary informed AAD that it believed its process followed industry practice.[2]

EFFECT

AAD could not calculate a monetary effect from this Finding as there were no traffic studies performed after the Average Schedule conversion. Traffic studies performed prior to the Cost Company conversion may not accurately reflect the jurisdictional nature of the actual traffic after the conversion.

RECOMMENDATION

AAD does not recommend a recovery of funds. The Beneficiary must implement an adequate system to collect timely traffic study data. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

> The Beneficiary concurs with the finding in the condition section. The Beneficiary did not feel that the traffic patterns changed in the twelve months subsequent to the conversion to cost so in an effort to keep costs down did not revise the traffic study after the conversion to cost. The Beneficiary and its consultant believed that using a study performed prior to conversion was an accepted industry practice; however as USAC points out above it is not in compliance with the rules.
>
> Traffic factors were frozen by the FCC so there is no way to implement an adequate system to collect timely traffic study data until such time as the FCC lifts the freeze on

[1] July 2011 Traffic Study (SLU, CM, CMM, DEM, & SPF).
[2] Beneficiary responses to audit inquiries, received May 16, 2019.

traffic study factors. Even if the Beneficiary ran a traffic study now, it would be prevented by FCC rule from updating the frozen traffic study factors.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 36.3(e) (2014).	"(e) Any local exchange carrier study area converting from average schedule company status, as defined in §69.605(c) of this chapter, to cost company status during the period July 1, 2001, through June 30, 2012, shall, for the first twelve months subsequent to conversion categorize the telecommunications plant and expenses and develop separations allocation factors in accordance with the separations procedures in effect as of December 31, 2000. Effective July 1, 2001 through June 30, 2012, such companies shall utilize the separations allocation factors and account categorization subject to the requirements of §§36.3(a) and (b) based on the category relationships and allocation factors for the twelve months subsequent to the conversion to cost company status."

Attachment D

HC2017LR024

Available For Public Use

Agate Mutual Telephone Cooperative Association

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR024

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EXECUTIVE SUMMARY

March 10, 2020

Daniel Hollembeak
Agate Mutual Telephone Cooperative Association
38619 Monroe St
PO Box 38
Agate, CO 80101

Dear Daniel Hollembeak:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Agate Mutual Telephone Cooperative Association (Beneficiary), study area code 462178 disbursements for the year ending December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD 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 AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed four detailed audit findings (Findings), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with 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 Federal Communication Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Teleshia Delmar

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
Finding #1: 47 C.F.R § 54.320(b) – Inadequate Documentation - Asset, Affiliates and Expenses: The Beneficiary was unable to provide adequate documentation to support a portion of the assets, affiliates, and expenses selected for testing.	$6,038
Finding #2: 47 C.F.R. § 54.7(a), FCC 15-133, FCC 18-29 – Support Not Used for Intended Purposes: The Beneficiary included transactions that were not used for the provision, maintenance, and upgrading of facilities and services for which the support was intended for High Cost Program purposes.	$2,273
Finding #3: 47 C.F.R. § 32.2000(g) – Inaccurate Depreciation Calculation: The Beneficiary reported depreciation expense and accumulated depreciation using month end balances, an incorrect deprecation rate, and made calculation errors when computing depreciation expense.	($2,249)
Finding #4: 47 C.F.R. § 32.6110(b) – Improper Distribution of Overhead Expenses: The Beneficiary used direct labor dollars, instead of direct labor hours when distributing its overhead expenses, and did not include all plant specific operations expense accounts in its distribution calculation.	($3,759)
Total	**$2,303**

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 from the Beneficiary for SAC 462178. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	ICLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$3,543	$2,495	$0	$6,038	
Finding #2	$1,632	$641	$0	$2,273	
Finding #3	($1,864)	($385)	$0	($2,249)	
Finding #4	($408)	($3,351)	$0	($3,759)	
Mechanism Total	**$2,903**	**($600)**	**$0**	**$2,303**	

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

PURPOSE, SCOPE AND PROCEDURES

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

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2014-2015	2016	$36,486
High Cost Loop (HCL)	2014	2016	$184,034
Interstate Common Line Support (ICLS)	2014	2016	$107,860
Safety Net Additive (SNA)	2014	2016	$3,427
Total			**$331,807**

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

PROCEDURES
AAD performed the following procedures:

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

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

C. Subscriber Listing and Billing Records
AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer-assisted auditing techniques to analyze the data files and to determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings;
- The data files contained duplicate lines;
- The data files contained blank or invalid data;
- The data files contained non-revenue producing or non-working loops; and

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

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

G. Form 481

AAD obtained and examined the Beneficiary's FCC Form 481 (Form 481) for accuracy by comparing select reported to the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.320(b) – Inadequate Documentation – Assets, Affiliates and Expenses

CONDITION

AAD obtained and examined documentation, including a sample of 31 asset transactions, 19 affiliate transactions, and 27 expense transactions all totaling $702,365, to determine whether the Beneficiary recorded its cost study balances to the proper general ledger account for High Cost Program purposes. AAD noted the following exceptions[3]:

Exceptions Noted	Number of Exceptions	Type	Account[4]	Value of Samples With Exceptions	Unsupported Portion of Samples With Exception
Missing Invoice	2	Asset	Central Office Switching (2210)	$149,673	$32,533
Missing Invoices	5	Asset	Cable & Wire Facilities (2410)	$73,639	$52,414
Missing Invoice and Allocation Methodology could not be substantiated for Accuracy or Reasonableness	1	Asset	Cable & Wire Facilities (2410)	$42,788	$591
Missing Support for Calculation	1	Affiliate	General Purpose Computers (6124)	$68	$68
Missing Rent Agreement	1	Expense	General Support (6120)	$350	$4,200[5]
Missing Invoice	1	Expense	General & Admin. (6720)	$258	$258
			Total	**$266,776**	**$90,064**

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its assets, affiliates, and expenses in the proper amount and to the proper general ledger account. Because the Beneficiary did not provide adequate documentation to

[3] In this report, AAD identifies an "exception" when, based on a review of the Beneficiary-provided evidence/documentation, it identifies a discrepancy or deviation from the norm resulting in audit testing. An exception results in a finding based on the materiality of exception.
[4] *See* 47 C.F.R. §§ 32.2210 (2014), 32.2410 (2014), 32.6120 (2014), 32.6124 (2014), and 32.6720 (2014).
[5] AAD sampled a recurring monthly transaction; thus, AAD noted an exception for the entire year.

substantiate its assets, affiliates, and expenses, AAD concludes that the 11 transactions were not recorded in the proper amount and to the proper general ledger account; and thus, the cost study balances reported for High Cost Program purposes were inaccurate.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate assets, affiliates, and expenses were recorded in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that this issue occurred because there was turnover in the management and in-office accounting staff from the audit period to to-date.[6] The Beneficiary further informed AAD that it is unclear whether procedures were not followed or if documents were just misplaced.[7]

EFFECT

AAD calculated the monetary effect for this finding by deducting the inadequately supported value of the eight assets, one affiliate transaction, two expense transactions (totaling $90,064) as well as any associated accumulated depreciation and depreciation expense from the balances reported by the Beneficiary in respective accounts in its High Cost filing. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$3,543
ICLS	$2,495
CAF ICC	$0
Total	**$6,038**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. Note: as of August 2019, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM) support, and therefore no longer receives High Cost legacy support.

The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with FCC Rules and Orders. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

Agate has had turnover in the management and in-office accounting staff from the test period to today. It is unclear whether procedures were not followed or if documents were just misplaced. Agate does concur with all of the documentation findings with the exception of Expense Sample 21. Agate was able to produce check stubs for their building rent expense for all months of 2014. Although no lease agreement was available, it is not uncommon in rural areas for agreements to be verbal or over a hand shake, especially with companies with long community ties like Agate.

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[6] Beneficiary responses to audit exception summary, received April 19, 2019.
[7] Beneficiary responses to audit exception summary, received April 19, 2019.

Agate has reviewed the record retention requirements and have updated their procedures to conform with those requirements.

AAD RESPONSE

The Beneficiary stated in its response that they "[c]oncur with all of the documentation findings with the exception of expense Sample 21. Agate was able to produce check stubs for their building rent expense for all months of 2014." AAD agrees that providing the check stubs supports the payment of the rent expenses; however, the Beneficiary was unable to provide documentation that demonstrates the expense was used for the provision, maintenance, and upgrade of facilities and services, pursuant to 47 § 54.7. Because the Beneficiary did not provide documentation to demonstrate that the expense was used for the intended purposes, pursuant to 47 § 54.7, AAD concludes that the sample was not recorded to the proper general ledger account.

The Beneficiary also stated in its response that "[a]lthough no lease agreement was available, it is not uncommon in rural areas for agreements to be verbal or over a hand shake, especially with companies with long community ties like Agate." AAD does not agree with this statement is not consistent with the Communications Act nor with the Rules. 47 C.F.R. § 220(a) directs the FCC to prescribe the forms of accounts and records that Beneficiaries must keep, and states that once the FCC has prescribed such system of accounts, the Beneficiary must maintain accounts using such methods. Pursuant to 47 § 32.2(f), "*The financial data contained in the accounts, together with the detailed information contained in the underlying financial and other subsidiary records required by this Commission, will provide the information necessary to support separations, cost of service and management reporting requirements. The basic account structure has been designed to remain stable as reporting requirements change.*" AAD notes that a lease via handshake or verbal agreement is not consistent with the Part 32 Uniform System of Accounts nor generally accepted accounting principles.[8] In addition, pursuant to 47 § 54.320, all beneficiaries must maintain documentation for ten years from the receipt of funding. The Beneficiary must maintain documentation to demonstrate compliance with FCC Rules and Orders; thus, AAD's finding regarding the inadequate documentation for the unsupported assets, affiliate, and expense transactions remains unchanged.

Finding #2: 47 C.F.R. § 54.7(a), FCC 15-133, and FCC 18-29 – Support Not Used for Intended Purposes

CONDITION

AAD obtained and examined documentation to determine whether (1) the Beneficiary recorded its cost study balances to the proper general ledger account, and (2) the Beneficiary used its High Cost support for the provision, maintenance, and upgrading of facilities and services, i.e., its intended use. AAD reviewed the Beneficiary's general ledger, for the twelve months ending December 31, 2014 and the twelve months ending

[8] See 47 C.F.R. §§ 32.12(a) (2014), and 32.12(b) (2014).

March 31, 2015,[9] and determined that for 37 transactions totaling $4,630, and 33 transactions totaling $5,034, respectively, the Beneficiary did not use its High Cost support for its intended use for the provision, maintenance, and upgrading of facilities and services. As AAD summarizes in the table below, the Beneficiary used High Cost support for expenses related to charitable donations, gifts to employees, and fees associated with late payments on debt.

Account Number & Name	Dollars ($) January 1, 2014 through December 31, 2014	Dollars ($) April 1, 2014 through March 31, 2015
2410 – Cable and Wire Facilities	$47	$47
6210 – Central Office Switching Expense	$8	$8
6610 – Marketing Expense	$1,543	$1,543
6720 – General and Administrative Expense	$3,032	$3,436
Total	**$4,630**	**$5,034**

Thus, AAD concludes that the Beneficiary (1) did not record its cost study balances to the proper general ledger account and (2) in certain instances, did not use its High Cost Support for the provision, maintenance, and upgrading of facilities and services, as required by program rules.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude transactions that were not used for the provision, maintenance, and upgrading of facilities and services for which the support was intended. AAD inquired of the Beneficiary regarding how it recorded its cost study balances and about the use of the relevant High Cost support the Beneficiary did not respond to AAD's inquiries.[10]

EFFECT

AAD calculated the monetary effect for this finding by deducting from the balances reported by the Beneficiary in the relevant accounts in its High Cost Filings, the value of the ineligible expenses (i.e., the 37 disallowed transactions totaling $4,630 as December 31, 2014 and the 33 disallowed transactions totaling $5,034 as of March 31, 2015), including, where applicable, any associated accumulated depreciation and depreciation expense. AAD summarizes the results in the table below:

[9] *See* 47 C.F.R. § 54.1306(a) (2014). The Beneficiary submitted an updated high cost filing as of March 31, 2015 for High Cost Loop (HCL) support, but did not amend its filing relevant to its Interstate Common Line support (ICLS). Thus, the relevant filing for the Beneficiary's ICLS remained as of December 31, 2014. In this case, the time periods between HCL and ICLS overlap by nine months. To ensure that there was not duplicative monetary effects, AAD calculated a monetary effect for the identified exceptions for the applicable periods for each High Cost fund. *See* Table 2.

[10] AAD sent an initial inquiry on April 12, 2019. AAD sent follow-up inquiries on May 29, 2019, May 30, 2019, January 22, 2020 and January 27, 2020.

Support Type	Monetary Effect and Recommended Recovery
HCL	$1,632
ICLS	$641
CAF ICC	$0
Total	**$2,273**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. Note: as of August 2019, the Beneficiary began receiving A-CAM support, and therefore no longer receives legacy support.

The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes and must maintain documentation to demonstrate compliance with High Cost Program Rules. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

Agate has reviewed the FCC's 2018 Order clarifying excluded expenses and will remove any future expense that are personal, unrelated to operations or a corporate luxury good from USF calculations.

Finding #3: 47 C.F.R. § 32.2000(g) – Inaccurate Depreciation Calculation

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary calculated and reported its depreciation expenses properly for High Cost Program purposes. The Beneficiary did not accurately report depreciation expense and accumulated depreciation for the following reasons:

a. The Beneficiary used month-end balances instead of average monthly balances to compute depreciation.
b. The Beneficiary used a 5 percent depreciation rate for Account 2121 (Buildings) rather than the maximum 3.30 percent depreciation rate approved by the Public Utilities Commission of Colorado.
c. The Beneficiary made calculation errors in computing the depreciation expense for various accounts.

For the twelve-month period ending December 31, 2014, impacting the 2015-1 HCL Form and 2014 Form 509, depreciation expense and accumulated depreciation were understated by $3,274. For the twelve-month period ending March 31, 2015, impacting the 2015-2 HCL Form, depreciation expense was understated by $4,179 and accumulated depreciation was understated by $5,379. Thus, AAD concludes that the Beneficiary did not calculate and report its depreciation expenses properly.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation of depreciation expense and accumulated depreciation using the appropriate methodology and using the appropriate depreciation rates approved by its state public utility commission. The Beneficiary informed AAD that this issue occurred because of the Beneficiary's "accounting software being programmed to calculate depreciation on the beginning assets balances."[11]

EFFECT

AAD calculated the monetary effect for this finding by adding the understated depreciation expense and associated accumulated depreciation to the balances reported by the Beneficiary in the respective accounts in it High Cost filing. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($1,864)
ICLS	($385)
CAF ICC	$0
Total	**($2,249)**

RECOMMENDATION

Note: as of August 2019, the Beneficiary began receiving A-CAM support, and therefore no longer receives legacy support. The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

Agate's accounting software was programmed to calculate depreciation on beginning assets balances. Agate will switch the depreciation calculation to utilized average monthly balances.

Finding #4: 47 C.F.R. § 32.6110(b) – Improper Distribution of Overhead Expenses

CONDITION

AAD obtained and examined documentation including the Beneficiary's labor distribution reports benefits allocation to determine whether the Beneficiary properly distributed and recorded its overhead expenses to the correct general ledger account for High Cost Program purposes. Pursuant to section 32.6110(b) of the FCC's rules, "[c]redits shall be made to this account [the network support expenses account] by companies for amounts transferred to Construction and/or other Plant Specific Operation Expense accounts and the amounts "*shall be computed on the basis of direct labor hours*."[12]

AAD determined that the Beneficiary improperly distributed the expenses recorded to account 6110 using direct labor dollars as an allocation factor rather than direct labor hours. The Beneficiary distributed $76,648 in overhead expenses for the 12-month period ending December 2014. AAD determined that, of the $76,648

[11] Beneficiary responses to audit exception summary, received April 19, 2019.
[12] *See* 47 C.F.R. § 32.6110(b) (2014) (*emphasis added*).

of overhead expenses distributed, $14,289 recorded to account 6110 (including accounts 6112 and 6114) should have been distributed based on direct labor hours. The Beneficiary recorded the remainder of the overhead expenses distributed to Account 6720 based on direct labor dollars.[13] AAD also determined that the Beneficiary did not include all applicable expense accounts in the expense distribution calculation of both Account 6110 and Account 6720. AAD summarized these exceptions within the two tables below.

Overhead Expenses To Be Distributed				
Exceptions Noted	**Original Allocation Factor**	**Revised Allocation Factor**	**Account[14]**	**Value of Overhead Expenses to be Distributed**
Incorrect Allocation Factor and Incorrect Overhead Distribution Calculation	Direct Labor Dollars	Direct Labor Hours	Motor Vehicles Expense (6112)	$545
Incorrect Allocation Factor and Incorrect Overhead Distribution Calculation	Direct Labor Dollars	Direct Labor Hours	Other Work Equipment Expense (6114)	$13,744
			Account 6110 Subtotal	**$14,289**
Incorrect Overhead Distribution Calculation	Direct Labor Dollars	Direct Labor Dollars	General and Administrative (6720)	$62,359
			Account 6720 Subtotal	**$62,359**
			Total	**$76,648**

Revised Distribution of Overhead Expenses using the Revised Allocation Factor				
Original Distribution Account (Per Beneficiary)	**Revised Distribution Account based on Updated Allocation Factor[15] (Per AAD)**	**Original Distribution**	**Revised Distribution**	**Variance [addition/ (removal)]**
Accounts Receivables (1170)	Accounts Receivables (1170)	$13,324	$10,354	($2,970)
Not Applicable	General Support Expenses (6120)	Not Applicable	$5,057	$5,057
Central Office Switching Expense (6210)	Central Office Switching Expense (6210)	$5,589	$4,466	($1,123)
Circuit Equipment Expense (6232)	Circuit Equipment Expense (6232)	$8,748	$14,727	$5,979
Buried Cable Expense (6423)	Buried Cable Expense (6423)	$2,923	$6,245	$3,322

[13] AAD notes that FCC rules do not explicitly state that overhead expenses relating to benefits must be cleared based on direct labor hours. With explicit instruction, AAD calculated the monetary effect for account 6720 based on direct labor dollars because the Beneficiary has used direct labor dollars.

[14] *See* 47 C.F.R. §§ 32.6112(b) (2014), 32.6114(b) (2014), and 32.6720 (2014).

[15] *See* 47 C.F.R. §§ 32.1170 (2014), 32.6120 (2014), 32.6210 (2014), 32.6232 (2014), 32.6423 (2014), 32.6620 (2014), and 32.6720 (2014).

Customer Services Expense (6620)	Customer Services Expense (6620)	$6,805	$5,289	(1,516)
General and Administrative Expenses (6720)	General and Administrative Expenses (6720)	$39,259	$30,510	($8,749)
	Total	**$76,648**	**$76,648**	**$0**

Because the Beneficiary used direct labor dollars, instead of direct labor hours when distributing its overhead expenses from Accounts 6112 and 6114, and did not include all plant specific operations expense accounts in its distribution calculation, AAD concludes that the Beneficiary did not properly distribute and record its overhead expenses to the proper general ledger account for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate preparation, review, and approval process to ensure that it recorded the proper distribution of overhead expenses in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that the inaccurate reporting occurred because of an error in the formula used for the clearing calculation.[16]

EFFECT

AAD calculated the monetary effect for this finding by adding and deducting the amounts noted in the second chart above for all plant specific operations expense accounts from the total amount reported by the Beneficiary in the relevant accounts in the Beneficiary's High Cost filing. AAD summarizes the results below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($408)
ICLS	($3,351)
CAF ICC	$0
Total	**($3,759)**

RECOMMENDATION

The Beneficiary must enhance its preparation, review, and approval processes to ensure compliance with FCC Rules and Orders. Note: as of August 2019, the Beneficiary began receiving A-CAM support, and therefore no longer receives High Cost legacy support.

The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

The overhead amounts did not fully clear due to an error in a formula in the clearing calculation. Agate has corrected the clearing calculation to avoid such an error in the future.

[16] Beneficiary responses to audit exception summary, received April 19, 2019.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.320(b) (2014)	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.
#1	47 C.F.R. § 32.2210 (2014)	This account shall be used by Class B companies to record the original cost of switching assets of the type and character required of Class A companies in Accounts 2211 through 2212.
#1	47 C.F.R. § 32.2410 (2014)	This account shall be used by Class B companies to record the original cost of cable and wire facilities of the type and character required of Class A companies in Accounts 2411 through 2441.
#1	47 C.F.R. § 32.6124 (2014)	This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also §32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.
#1	47 C.F.R. § 32.12(a)(b) (2014)	(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts. (b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.
#1 & #4	47 C.F.R. § 32.6120 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6121 through 6124.
#1 & #4	47 C.F.R. § 32.6720 (2014)	This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis.

Finding	Criteria	Description
		(c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Non-operating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities; (4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services; (5) Job analysis and salary programs; (6) Labor relations activities; (7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers.

Finding	Criteria	Description
		(g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#2	47 C.F.R. § 54.7(a) (2014)	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.
#2	FCC 15-133 (Released October 19, 2015)	The Commission reminds all eligible telecommunications carriers (ETCs) that receive support from the Universal Service Fund's high-cost mechanisms (whether legacy high-cost program support or Connect America Fund support) of their obligations to use such support only for its intended purposes of maintaining and extending communications service to rural, high-cost areas of the nation. Expenditure of legacy high-cost or Connect America support for any other purpose is misuse and may subject the recipient to recovery of funding, suspension of funding, enforcement action by the

Finding	Criteria	Description
		Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act.
#2	FCC 18-29 ¶10 (Released March 23, 2018)	In this Report and Order, we adopt reforms to ensure that high-cost universal service support provided to eligible telecommunications carriers (ETCs) is used only for the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended pursuant to section 254(e) of the Act.10 We also adopt reforms to ensure that the investments and expenses that rate-of-return carriers recover through interstate rates are reasonable pursuant to section 201(b) of the Act.11 Our findings here do not prevent rate-of-return carriers from incurring any particular investment or expense, but simply clarify the extent to which investments and expenses may be recovered through federal high-cost support and interstate rates. The rules we adopt are prospective but the underlying obligations are preexisting and many of the rules we adopt today codify existing precedent. Our rules and the used and useful standard have long governed ETCs and rate-of-return carriers' behavior.12 Nothing we do in this Report and Order is intended to undermine our precedent.
#2	47 C.F.R. § 54.1306(a) (2014)	(a) Any incumbent local exchange carrier subject to §54.1301(a) may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to §54.1305 one or more times annually on a rolling year basis according to the schedule. (1) Submit data covering the last nine months of the previous calendar year and the first three months of the existing calendar year no later than September 30th of the existing year; (2) Submit data covering the last six months of the previous calendar year and the first six months of the existing calendar year no later than December 30th of the existing year; (3) Submit data covering the last three months of the second previous calendar year and the first nine months of the previous calendar year no later than March 30th of the existing year.
#3	47 C.F.R. § 32.2000(g) (2014)	Depreciation accounting— (1) Computation of depreciation rates. (i) 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. (ii) In the event any composite percentage rate becomes no longer applicable, revised composite percentage rates shall be computed in accordance with paragraph (g)(1)(i) of this section.

Finding	Criteria	Description
		(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. Such records will also allow the determination of the percentage of salvage value and cost of removal for property retired from each class of depreciable plant. (2) Depreciation charges. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section. (3) Acquired depreciable plant. When acquired depreciable plant carried in Account 1438, Deferred maintenance, retirements and other deferred charges, is distributed to the appropriate plant accounts, adjusting entries shall be made covering the depreciation charges applicable to such plant for the period during which it was carried in Account 1438.

Finding	Criteria	Description
		(4) Plant Retired for Nonrecurring Factors not Recognized in Depreciation Rates. (i) A retirement will be considered as nonrecurring (extraordinary) only if the following criteria are met: (A) The impending retirement was not adequately considered in setting past depreciation rates. (B) The charging of the retirement against the reserve will unduly deplete that reserve. (C) The retirement is unusual such that similar retirements are not likely to recur in the future. (5) Upon direction or approval from this Commission, the company shall credit Account 3100, Accumulated Depreciation, and charge Account 1438, Deferred Maintenance, retirements and other deferred charges, with the unprovided-for loss in service value. Such amounts shall be distributed from Account 1438 to Account 6561, Depreciation expense—Telecommunications plant in service, or Account 6562, Depreciation expense—property held for future telecommunications use, over such period as this Commission may direct or approve.
#4	47 C.F.R. § 32.1170 (2014)	(a) This account shall include all amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers. This account shall also include all amounts due from customers or agents for products sold. This account shall be kept in such manner as will enable the company to make the following analysis: (1) Amounts due from customers who are receiving telecommunications service. (2) Amounts due from customers who are not receiving service and whose accounts are in process of collection. (b) Collections in excess of amounts charged to this account may be credited to and carried in this account until applied against charges for services rendered or until refunded. (c) Cost of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of issue. (d) Amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned. (e) This account shall not include dividends or other returns on securities issued or assumed by the company and held by or for it, whether pledged as collateral, or held in its treasury, in special deposits, or in sinking and other funds. (f) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account

Finding	Criteria	Description
		1410, Other noncurrent assets, as a reduction of the carrying value of the investment. (g) This account shall include all amounts currently due, and not provided for in (a) through (g) of this section such as those for traffic settlements, divisions of revenue, material and supplies, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts. If any of these items are not to be paid currently, they shall be transferred to Account 1410, Other noncurrent assets. (h) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this chapter.
#4	47 C.F.R. § 32.6112(b) (2014)	Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
#4	47 C.F.R. § 32.6114(b) (2014)	Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to Construction and/ or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
#4	47 C.F.R. § 32.6210 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6211 through 6212.
#4	47 C.F.R. § 32.6232 (2014)	(a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical. (b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment. (c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit equipment.
#4	47 C.F.R. § 32.6423 (2014)	(a) This account shall include expenses associated with buried cable. (b) Subsidiary record categories shall be maintained as provided in §32.2423(a) of subpart C.
#4	47 C.F.R. § 32.6620 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6621 through 6623.

Attachment E

HC2017LR025

Universal Service Administrative Co.

Elsie Communications, Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR025

TABLE OF CONTENTS

EXECUTIVE SUMMARY

March 12, 2020

Lauri McCaslin
Accountant
Elsie Communications, Inc.
60 Beckwith Drive
PO Box 19817
Colorado City, CO 81019

Dear Lauri McCaslin:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Elsie Communications, Inc. (Beneficiary), study area code 371518 disbursements for the year ended December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed three detailed audit findings (Findings), as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with 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 Federal Communication Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Teleshia Delmar

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.1305(i) & § 54.903(a)(1) - Inaccurate Loop and Access Line Counts The Beneficiary improperly included 3 loops and access lines, and improperly excluded 5 loops and access lines.	$1,545
Finding #2: 47 C.F.R. § 64.901(b)(3)(ii) - Improper Allocation Methodology The Beneficiary's management fee paid to its Parent company included revenue and net plant as allocation factors. Revenue is not cost causative.	($5,607)
Finding #3: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets The Beneficiary did not provide supporting documentation for 9 cable and wire facility asset samples.	Cannot Be Determined
Total	**($4,062)**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 371518 for the High Cost Program support amount noted in the chart below. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	ICLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$972	$453	$120	$1,545	
Finding #2	($4,229)	($1,378)	$0	($5,607)	
Finding #3	$0	$0	$0	$0	
Mechanism Total	**($3,257)**	**($925)**	**$120**	**($4,062)**	

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

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2014	2016	$60,408
High Cost Loop (HCL)	2014	2016	$139,771
Interstate Common Line Support (ICLS)	2014	2016	$127,443
Total			**$327,622**

Due to a limitation on the scope of the audit, AAD was unable to determine that the Beneficiary was in compliance with certain Rules for the data reported in its High Cost Program filings.[3]

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Nebraska. The Beneficiary is an affiliate of New Castle Holdings, Inc.,[4] USConnect Acquisitions IV, Inc., and USConnect Holdings, Inc.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

[3] *See* the Inadequate Documentation: Assets Detailed Audit Finding (DAF) for discussion of the scope limitation regarding the Beneficiary's compliance with the Rules surrounding the reporting of assets in the proper amount and in the appropriate account.

[4] Dalton Telephone Company, Inc. (Dalton Telephone) is an affiliate of New Castle Holdings, Inc., and a sister company of the Beneficiary. Dalton Telephone is the primary recipient of ACAM I support that is shared with the Beneficiary.

C. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer-assisted auditing techniques to analyze the data files and to determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings;
- The data files contained duplicate lines;
- The data files contained blank or invalid data;
- The data files contained non-revenue producing or non-working loops; and
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

G. Form 481

AAD obtained and examined the Beneficiary's FCC Form 481 (Form 481) for accuracy by comparing select reported to the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.1305(i) and § 54.903(a)(1) – Inaccurate Loops and Access Line Counts

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing that supported the number of loops as of December 31, 2014 and June 30, 2015 to determine whether the Beneficiary reported accurate loops for High Cost Loop (HCL) purposes. In addition, AAD obtained and examined the Beneficiary's subscriber listing that supported the number of access line counts as of December 31, 2014 to determine whether the Beneficiary reported accurate access line counts for Interstate Common Line Support (ICLS) purposes. AAD noted that the Beneficiary under-reported total loops (HCL Data Line 060) and total category 1.3 loops (HCL Data Line 070) by two loops on the USF Data Collection form (HCL Form). AAD also noted that the Beneficiary over-reported its residential/single-line business line counts by two access lines and under-reported its multi-line business counts by 5 access lines on the FCC Form 507.

Because the Beneficiary's supporting documentation did not agree to what it reported, AAD concludes that the Beneficiary reported inaccurate working loop and access line counts. The Beneficiary must report accurate loops and access line counts for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate loops and access line counts for High Cost Program purposes. The Beneficiary informed AAD that this instance occurred due to incorrect information within the Beneficiary's billing system.[5]

EFFECT

AAD calculated the monetary effect for this finding by deducting the two inaccurate loops and two line counts, as well as the Subscriber Line Charges (SLC), and Access Recovery Charges (ARC) related to the four inaccurate loops and line counts, from the total amounts reported by the Beneficiary in the respective accounts on the High Cost Program filings. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$972
ICLS	$453
CAF ICC	$120
Total	**$1,545**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. Note however, that currently, the Beneficiary only receives Connect America Fund Intercarrier Compensation (CAF ICC) funds.

[5] Beneficiary responses to audit results summary, received October 11, 2019.

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules and Orders. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

Elsie Communications agrees with the listed condition and will reflect the changes listed above in our system. Since January 2017has received model based Universal Service Support as an Alternative Connect American Cost Model (A-CAM) electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding.

AAD RESPONSE

The Beneficiary stated, "[s]ince January 2017 Elsie Communications has received model based Universal Service Support as an ACAM 1 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding." AAD agrees that the Beneficiary began receiving A-CAM as of January 2017. AAD modifies its original recommendation to include the following statement, "Note as of January 2017, the Beneficiary began receiving Alternative Connect America Cost Model (A-CAM) support in addition to CAF ICC support."

Finding #2: 47 C.F.R. § 64.901(b)(3)(ii) – Improper Allocation Methodology

CONDITION

AAD obtained and examined the Beneficiary's documentation to determine whether the Beneficiary's affiliate transactions and cost study balances were properly calculated and reported for High Cost Program purposes for the year ended December 31, 2014 and June 30, 2015.[6] Pursuant to 47 § C.F.R. 64.901(b)(3)(ii), beneficiaries must allocate indirect cost using a cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. The Beneficiary's indirect cost allocations between intercompany activities were not based on cost causative factors. Specifically, the management fees that were assessed by the parent company were allocated to the Beneficiary and other regulated affiliated entities based on net plant balances and revenues. AAD determined that using revenue as an allocation factor was not cost causative.

In the table, below AAD summarizes the net effect of the variances between the Beneficiary's allocation factors that were used for the management fees reported in its High Cost Program filings and AAD recalculated allocation factors using net plant balances:

Account[7]	Description	Beneficiary's Allocation Factor	AAD's Recalculated Allocation Factor Based on Net Plant	Increase (Decrease) to Transaction

[6] Beneficiary submitted an updated high cost filing as of June 30, 2015 for High Cost Loop (HCL) support (See § 54.1306(a)). The high cost filing for Interstate Common Line support (ICLS) remains as of December 31, 2014; therefore, the time periods between HCL and ICLS overlap by six months. AAD calculated a monetary effect for exceptions noted for the applicable periods for each fund, therefore, the exceptions noted do not result in duplicative monetary effects.
[7] *See* 47 C.F.R. §§ 32.6530 (2014), 32.6611 (2014), 32.6623 (2014), and 32.6720 (2014).

December 31, 2014				
6530	Depreciation Expense – General Support	2.2%	2.9%	$100
6611	Product Management and Sales Expense	2.2%	2.9%	$88
6623	Customer Services Expense	2.2%	2.9%	$108
6720	General & Administrative Expense	2.2%	2.9%	$8,237
			Subtotal	**$8,533**
June 30, 2015				
6720	General & Administrative Expense	2.2%	2.9%	$4,496
			Subtotal	**$4,496**
			Grand Total	**$13,029**

AAD determined that the Beneficiary's management fees were improperly calculated, recorded in the improper amount, and not based on cost causative factors. Thus, AAD concludes that the affiliate transactions related to its management fees and the cost study balances were inaccurately reported for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that factors used to allocate rate base accounts for intercompany transactions were based on cost causative factors. The Beneficiary informed AAD that revenues, in addition to net plant balances, were used in the allocation of management fees to offset the impact of heavy plant balances, and prevent the potential for unfair distribution of expenses to companies that had high plant balances due to geography.[8]

EFFECT

AAD calculated the monetary effect for this finding by adding $13,029 (as calculated above) to the total amount reported by the Beneficiary in its respective accounts on its High Cost Program filings. Below, AAD summarizes the results:

Support Type	Monetary Effect and Recommended Recovery
HCL	($4,229)
ICLS	($1,378)
CAF ICC	$0
Total	**($5,607)**

RECOMMENDATION

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules and Orders. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

[8] Beneficiary response to audit results summary, received October 11, 2019.

BENEFICIARY RESPONSE

Elsie Communications agrees with the listed condition. These expense allocations were updated in the 2015 Universal Service filings and each year following. Elsie does have a system in place to report accurate data for High Cost Program purposes and does maintain documentation to demonstrate compliance. Elsie elected to add revenue to its allocation to ensure that its locations with larger geographical territories, and therefore large plant balances, would not be allocated a disproportionate amount of costs that would therefore draw on the fund. Based on USACs recommendation during the audit the Beneficiary has changed its allocation factor to only include cost causitive factors. Since January 2017 Elsie Communications has received model based Universal Service Support as an ACAM 1 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding.

Finding #3: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets

CONDITION

AAD requested documentation for a sample of 32 assets to determine whether the Beneficiary had recorded its cost study balances to the proper general ledger account for High Cost Program purposes.[9] The Beneficiary was unable to provide adequate documentation for nine of the 32 asset samples; the nine asset samples were cable and wire facilities equipment (Account 2410) and totaled $978,284.[10] The Beneficiary informed AAD that it did not obtain the relevant documentation from the prior ownership for the nine assets it acquired in February 2014.[11]

In the event of an acquisition, pursuant to section 32.2000(b) of the FCC's rules, "property, plant and equipment acquired from an entity . . . shall be accounted for at the original cost."[12] Thus, recipients of High Cost support must account for the cost of assets at the time of the acquisition and should obtain documentation necessary to demonstrate that it used its support consistent with High Cost Program purposes.

In this instance, the Beneficiary informed AAD that it used estimates to report the values of these assets for its High Cost reporting.[13] Pursuant to section 32.2000(b)(2)(ii), a beneficiary of High Cost support may use estimates to report "telecommunications plant acquired," however, if it uses an estimate in lieu of the actual original cost, the beneficiary must provide documentation to explain the "particulars" of such estimates.[14]

In lieu of providing documentation to support the estimates, on October 28, 2019, the Beneficiary's cost consultant provided Continuing Property Records (CPR) as of 1998 and various work orders from 2006. However, the Beneficiary did not provide to AAD the underlying documentation (*i.e.,* work orders, invoices, allocation schedules, etc.) to support the CPR from 1998. Also, based on the documentation provided, AAD was not able to reconcile the 1998 CPR to the amounts reported at time of the acquisition (February 2014).

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[9] AAD submitted the initial document request list for 32 sampled assets on December 7, 2017.
[10] *See* 47 C.F.R. § 32.2410 (2014).
[11] The Beneficiary responded to AAD via an October 8, 2019 conference call.
[12] *See* 47 C.F.R. § 32.2000(b) (2014).
[13] Beneficiary responded to AAD on the Audit Inquiries Record on May 25, 2018.
[14] *See* 47 C.F.R. § 32.2000(b)(2)(ii) (2014).

From the records provided, AAD observed that there had been many transactions since the 1998 CPR but the Beneficiary was unable to provide reconciling items, such as asset additions and retirements for the period between 1998 and 2014. AAD was not able to reconcile the work orders from 2006 to the 1998 CPRs nor to the CPRs as of December 31, 2014. Further, based on the invoice details within the work order documentation provided, the Beneficiary appeared to have provided to AAD invoices that were not relevant to cable and wire facilities equipment.

Thus, AAD determined that the documentation provided was insufficient to support (a) the original cost of the assets, (b) the particulars of provided estimates, or (c) the value of the nine assets in 2014 when reported for High Cost Program purposes. To substantiate that it recorded its assets in the proper amount and to the proper general ledger account, the Beneficiary must maintain and provide copies of invoices, detailed allocation schedules, and other relevant documentation, such as estimation particulars and reconciliations.

AAD performed a physical inventory of the nine assets to confirm its existence. However, because the Beneficiary did not provide adequate documentation to substantiate its assets (i.e. scope limitation), AAD is unable to conclude that the nine assets were recorded in the proper amount.

CAUSE

The Beneficiary did not have documentation or data retention procedures to ensure the proper retention of records necessary to demonstrate that its assets were recorded in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that it experienced difficulty in locating invoices and work orders for the nine assets because it had had multiple changes in ownership since 1998.[15]

EFFECT

AAD is unable to calculate the monetary effect for this finding because the Beneficiary was unable to provide sufficient documentation to support the proper valuation of the nine assets.

RECOMMENDATION

The Beneficiary must implement recordkeeping policies and procedures to ensure and demonstrate compliance with FCC Rules and Orders. The Beneficiary must maintain CPRs for plant in service - cable and wire facilities assets. However, in instances in which the Beneficiary does not know the original cost of an asset, the Beneficiary (1) may develop an estimated market value of the assets at the time of the acquisition as a basis for the cost of the acquired assets recorded in the CPRs and (2) must maintain documentation to explain the particulars of such estimates. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at http://www.usac.org/about/about/program-integrity/findings/common-audit-hc.aspx.

BENEFICIARY RESPONSE

The Elsie property changed ownership three times since 1998. Because of this, USConnect has had some difficulties locating supporting documentation for these nine assets. We believe that we are in compliance with the FCC guidelines in regard to acquisitions per the stated rule:

[15] Beneficiary responses to the audit results summary, received October 11, 2019.

32.2000(f)…. (*4) Estimates. In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or the pricing of an acquisition for which a continuing property record has not been maintained, 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.*

Since January 2017 Elsie Communications has received model based Universal Service Support as an ACAM 1 electing company. As an ACAM company, USF funding is no longer paid based on the information contained in the above finding. Elsie has maintained all documentation since ownership has acquired Elsie Communications in 2014. The Beneficiary did provide USAC with a CPR and an estimate made at acquisition.

AAD RESPONSE

The Beneficiary "believe[s] that [they] are in compliance with the FCC guidelines in regard to acquisitions per [32.2000(f)(4)]." In addition, the Beneficiary also stated in its response that "[t]he Beneficiary did provide USAC with a CPR and an estimate made at acquisition." AAD does not agree with the Beneficiary's assertions. While 47 § 32.2000(f)(4)[16] states that estimates are allowed where actual original cost of property cannot be ascertained, 47 § 32.2000(b)(2)(ii)[17] states that "for telecommunication plant acquired, when the actual original cost cannot be determined and estimates are used, the company shall be prepared to furnish the Commission with the particulars of such estimates." As the Beneficiary has noted in its response, 47 § 32.2000(f)(4) states that "such estimates may include pricing of inventory for the initial entry of a continuing property record or the pricing an acquisition for which a continuing property record has not been maintained." The Beneficiary did not provide documentation demonstrating that any estimations were used to determine the actual cost of the assets or the pricing of the acquisition for which a continuing property record had not been maintained. AAD determined that the documentation provided by the Beneficiary (i.e. continuing property records from 1998 and various work orders from 2006) was not sufficient to support (a) the original cost of the assets, (b) the particulars to demonstrate that estimates were used, or (c) the value of the nine unsupported assets reported in 2014 for High Cost Program purposes. Thus, the documentation provided by the Beneficiary did not agree to the values reported in the Beneficiary's High Cost filings.

To substantiate that it recorded its assets in the proper amount and to the proper general ledger account, the Beneficiary must maintain and provide copies of invoices, detailed allocation schedules, and other relevant documentation, such as estimation particulars and reconciliations. Because the Beneficiary did not provide adequate documentation to substantiate its assets (i.e. scope limitation), AAD's position on this finding remains unchanged.

While the Beneficiary is now receiving ACAM and CAF ICC support, the Beneficiary is still required to adhere to the FCC's record retention rules that mandates that all documentation must be maintained for ten years from the receipt of funding.

[16] *See* 47 C.F.R. § 32.2000(f)(4) (2014).
[17] *See* 47 C.F.R. § 32.2000(b)(2)(ii) (2014).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.1305(i) (2014)	The number of working loops for each study area. 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.
#1	47 C.F.R. § 54.903(a)(1) (2014)	Beginning July 31, 2002, each rate-of-return carrier shall submit to the Administrator in accordance with the schedule in §54.1306 the number of lines it serves, within each rate-of-return carrier study area showing residential and single-line business line counts and multi-line business line counts separately. For purposes of this report, and for purposes of computing support under this subpart, the residential and single-line business class lines reported include lines assessed the residential and single-line business End User Common Line charge pursuant to §69.104 of this chapter, and the multi-line business class lines reported include lines assessed the multi-line business End User Common Line charge pursuant to §69.104 of this chapter. For purposes of this report, and for purposes of computing support under this subpart, lines served using resale of the rate-of-return local exchange carrier's service pursuant to section 251(c)(4) of the Communications Act of 1934, as amended, shall be considered lines served by the rate-of-return carrier only and must be reported accordingly.
#2	47 C.F.R. § 32.6720 (2014)	This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with

Finding	Criteria	Description
		government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Non-operating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities; (4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services; (5) Job analysis and salary programs; (6) Labor relations activities; (7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability

Finding	Criteria	Description
		payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#2	47 C.F.R. § 64.901(b)(3)(iii) (2014)	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. § 32.6530 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6531 through 6535.
#2	47 C.F.R. § 32.6611 (2014)	This account shall include: (a) Costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels. (b) Costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.
#2	47 C.F.R. § 32.6623 (2014)	(a) This account shall include costs incurred in establishing and servicing customer accounts. This includes: (1) Initiating customer service orders and records; (2) Maintaining and billing customer accounts; (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills; (4) Collecting and reporting pay station receipts; and (5) Instructing customers in the use of products and services. (b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by part 43 of this Commission's rules and regulations.
#3	47 C.F.R. § 54.320(b) (2014)	All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
#3	47 C.F.R. § 32.2410 (2014)	This account shall be used by Class B companies to record the original cost of cable and wire facilities of the type and character required of Class A companies in Accounts 2411 through 2441.
#3	47 C.F.R. § 32.2000(b) (2014)	Telecommunications plant acquired. (1) Property, plant and equipment acquired from an entity, whether or not affiliated with the accounting company, shall be accounted for

Finding	Criteria	Description
		at original cost, except that property, plant and equipment acquired from a nonaffiliated entity shall be accounted for at acquisition cost if the purchase price is less than $100,000 for Class A companies or $25,000 for Class B companies. (2) The accounting for property, plant and equipment to be recorded at original cost shall be as follows: (i) The amount of money paid (or current money value of any consideration other than money exchanged) for the property (together with preliminary expenses incurred in connection the acquisition) shall be charged to Account 1438, Deferred maintenance, retirements, and other deferred charges. (ii) The original cost, estimated if not known, of telecommunications plant, governmental franchises and other similar rights acquired shall be charged to the applicable telecommunications plant accounts, Telecommunications Plant Under Construction, and Property Held For Future Telecommunications Use, as appropriate, and credited to Account 1439. When the actual original cost cannot be determined and estimates are used, the company shall be prepared to furnish the Commission with the particulars of such estimates. (iii) Accumulated Depreciation and amortization balances related to plant acquired shall be credited to Account 3100, Accumulated depreciation, or Account 3200, Accumulated depreciation— held for future telecommunications use, or Account 3410, Accumulated amortization—capitalized leases and debited to Account 1438. Accumulated amortization balances related to plant acquired which ultimately is recorded in Accounts 2005, Telecommunications plant adjustment, Account 2682, Leasehold improvements, or Account 2690, Intangibles shall be credited to these asset accounts, and debited to Account 1438. (iv) Any amount remaining in Account 1438, applicable to the plant acquired, shall, upon completion of the entries provided in paragraphs (b)(2)(i) through (b)(2)(iii) of this section, be debited or credited, as applicable, to Account 2007, Goodwill, or to Account 2005, Telecommunications plant adjustment, as appropriate. (3) A memorandum record shall be kept showing the amount of contributions in aid of construction applicable to the property acquired as shown by the accounts of the previous owner.
#3	47 C.F.R. § 32.2000(b)(2)(ii) (2014)	The original cost, estimated if not known, of telecommunications plant, governmental franchises and other similar rights acquired shall be charged to the applicable telecommunications plant accounts, Telecommunications Plant Under Construction, and Property Held For Future Telecommunications Use, as appropriate, and credited to Account 1439. When the actual original cost cannot be determined and estimates are used, the company shall be prepared to furnish the Commission with the particulars of such estimates.

Attachment F

HC2017LR028

Orchard Farm Telephone Company

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR028

TABLE OF CONTENTS

EXECUTIVE SUMMARY

March 19, 2020

Mr. Michael Parrish
Consultant
Orchard Farm Telephone Company
P.O. Box 146
Rockland, ID 83271-0146

Dear Mr. Parrish:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Orchard Farm Telephone Company (Beneficiary), study area code 421934 disbursements for the year ended December 31, 2016, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

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

Teleshia Delmar

Teleshia Delmar
Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect and Recommended Recovery[1]
Finding #1: 47 C.F.R. § 54.320(b) – Lack of Documentation: Affiliate Transactions. The Beneficiary was unable to provide sufficient and appropriate documentation for certain affiliate transactions recorded.	$14,308
Finding #2: 47 C.F.R. § 54.1305(c)(h), 47 C.F.R. § 32.4340 – Inaccurate Net Non-Current Deferred Income Taxes. The Beneficiary did not report accurate net non-current deferred operating income taxes.	$4,839
Finding #3: 47 C.F.R. § 36.121(c)(1): Inaccurate Central Office Equipment Categorization. The Beneficiary did not use those frozen categories/sub-category relationships in the calculation used to allocate its power equipment and common equipment.	$1,387
Finding #4: 47 C.F.R. § 54.320(b) - Inadequate Documentation – Assets. The Beneficiary did not provide documentation to support a portion of the asset value for all samples selected for testing.	$1,313
Total	**$21,847**

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 from the Beneficiary for SAC 421934. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC Management recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules.

	Support Type (ICLS)	USAC Recovery Action[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$14,308	$14,308	
Finding #2	$4,839	$4,839	
Finding #3	$1,387	$1,387	
Finding #4	$1,313	$1,313	
Mechanism Total	**$21,847**	**$21,847**	

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Connect America Fund (CAF) Intercarrier Compensation (ICC)	2014-2015	2016	$46,452
Interstate Common Line Support (ICLS)	2014	2016	$81,967
Total			**$128,419**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Missouri. The Beneficiary is wholly owned by New Florence Telephone Company. Oregon Telephone is New Florence Telephone Company's parent company and owns, if not wholly owns, seven other telephone companies. On July 31, 2014, New Florence Telephone Company purchased the Beneficiary as its wholly owned subsidiary. Prior to this purchase, the Beneficiary was a wholly owned subsidiary of TDS Telecommunication Corporation.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

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

C. Subscriber Listing and Billing Records

AAD obtained and examined the Beneficiary's subscriber listings and billing records. AAD used computer assisted auditing techniques to analyze the data files and determine whether:

- The number and type of lines in the data files agreed to the number and type of lines reported on the Beneficiary's High Cost data filings.
- The data files contained duplicate lines.
- The data files contained blank or invalid data.

- The data files contained non-revenue producing or non-working loops.
- The lines in the data files were identified with the proper residential/single line business (Res/SLB) or multi-line business (MLB) classification.

D. Fixed Assets

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

E. Operating Expenses

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

F. Revenues

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

G. Form 481

AAD obtained and examined the Beneficiary's FCC Form 481 (Form 481) for accuracy by comparing select reported to the Beneficiary's data files.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.320(b) – Lack of Documentation: Affiliate Transactions

CONDITION

AAD obtained and examined the Beneficiary's documentation to determine whether the Beneficiary appropriately valued, calculated, and accurately recorded its affiliate transactions for High Cost Program purposes. The Beneficiary did not provide AAD with a listing of its affiliate and related party transactions. Therefore, AAD selected a sample of five affiliate transactions from the Beneficiary's affiliate accounts payable account in the general ledger for testing.[3] Although the Beneficiary believes it provided documentation to support these five affiliate transactions, the description and amount for one affiliate transaction did not agree to the invoice provided by the Beneficiary. Specifically, the sample selected relates to a continued property record (CPR) true-up adjustment of $90,422,[4] whereas the invoice provided by the Beneficiary supports transition services fees of $90,275. Thus, the Beneficiary did not provide supporting documentation for one affiliate transaction totaling $90,422. Further, the Beneficiary allocated the $90,422 across multiple expense accounts but was unable to support how the amounts were allocated to each account. Therefore, the Beneficiary over-reported the expenses associated with this affiliate transaction as allocated to central transmission expenses by $18,125, cable and wire facilities expense by $19,160, customer operations service expenses by $15,551, and executive expenses by $37,586.

Because the Beneficiary did not provide documentation that supports the nature and the value of the affiliate transaction selected, AAD concludes that the affiliate transaction was inappropriately valued, calculated and recorded. The Beneficiary must maintain documentation to support the affiliate transactions recorded and reported for High Cost Program purposes.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures in place to demonstrate that affiliate transactions were accurately valued, calculated and recorded for High Cost Program purposes. However, the Beneficiary believes that it provided documentation to support these affiliate transactions.[5]

EFFECT

AAD calculated the monetary effect for this finding was by subtracting the recorded value of the affiliated transactions, from the total amount reported by the Beneficiary in the respective accounts in its High Cost filing. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
ICLS	$14,308

[3] There were no affiliate accounts receivable transactions in the general ledger.
[4] 47 C.F.R. § 32.2000(f)(2)(iii).
[5] Beneficiary responses to audit inquiries, received Mar. 8, 2019.

RECOMMENDATION

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

The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> The company provided, early in the inquiry process, copies of invoices associated with the general ledger line item which has mistakenly been identified as a CPR true-up item. As has been explained to USAC staff numerous times that description automatically copied to the line within our accounting software because no different description was manually input so it copied over from a previous line item. Regardless of that, Orchard Farm provided invoices for the amount in question as well as a complete description showing the methodology used for allocating costs between different companies affiliated with Orchard Farms as well as the calculations for how the cost item was allocated between numerous different general ledger accounts. We believe that the methodology used was the best available methodology and resulted in accurate accounting and cost recovery. This finding is about misunderstanding and difference of opinion not about failure on the part of Orchard Farm to provide sufficient documentation.

AAD RESPONSE

The Beneficiary indicates that it provided copies of invoices that support the affiliate transaction sampled by AAD. Further, the Beneficiary asserts that this finding arises out of a misunderstanding and difference of opinion. While conceding that the transaction was incorrectly described in its general ledger, the invoice provided by the Beneficiary differed in amount from the mislabeled transaction as noted in the Condition above. Additionally, the amount on the invoice could not be reconciled to the detailed journal entry provided as support for the transaction. AAD has reviewed all the invoices provided as support for the Beneficiary's affiliate transactions and afforded the Beneficiary several opportunities to explain why the supporting documentation provided does not match the general ledger entry. The Beneficiary did not provide documentation supporting the amount booked nor a reconciliation of the difference in the dollar amounts. For these reasons AAD's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.1305(c),(h), 47 C.F.R. § 32.4340 – Inaccurate Net Non-Current Deferred Income Taxes

CONDITION

AAD obtained and examined the Beneficiary's supporting tax schedules, and the general ledger and financial statements as of December 31, 2014, to determine whether the Beneficiary reported accurate net non-current deferred operating income taxes for High Cost Program (HCP) purposes. Pursuant to section 54.1305(c) of the FCC's rule, carriers are required to calculate their noncurrent deferred federal income taxes on December 31st of the calendar year preceding each July 31st filing. The Beneficiary submitted its 2014 High Cost filing using estimated tax amounts and did not submit an updated filing with the actual tax balances.[6] Additionally, the net non-current deferred income taxes per the Beneficiary's supporting schedules did not agree to the amounts recorded in the Beneficiary's financial records. As a result, the Beneficiary under-reported its net non-current deferred income taxes by $173,507. Thus, AAD concludes that the Beneficiary did not report accurate net non-current deferred operating income taxes. The Beneficiary must report accurate Net Non-Current Deferred Income Taxes for HCP purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate net non-current deferred income taxes. The Beneficiary informed AAD that the issues were due to a change in ownership that occurred during the third quarter of 2014, as it was the first year with new accountants and owners, new tax preparers and new consultants.[7]

EFFECT

AAD calculated the monetary effect for this finding by adding the recorded value of the deferred taxes per the financial records to the total amount reported by the Beneficiary in the respective accounts in its High Cost filing. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
ICLS	$4,839

RECOMMENDATION

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

The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> Orchard Farm understands that ICLS support and cost recovery for tax costs is based upon an imputed amount within the cost study not necessarily upon actual taxes and consequences paid and recognized by the company. As such, there really is no relevance nor fair expectation that general ledger tax entries will definitively match cost study information for the same. The only relevant calculation is whether the

[6] 47 C.F.R. § 36.506.
[7] Beneficiary responses to audit inquiries, received Jan. 11, 2019.

imputed amounts calculated , [sic] provided, and explained by the cost consulting company are accurate according to cost recovery rules. I am not aware of any suggestion that they are not.

AAD RESPONSE

The Beneficiary asserts that tax costs are imputed within the cost study and are not the actual tax costs. AAD examined the Beneficiary's Part 36 cost study. AAD noted that there is insufficient data in the cost study (chiefly, the difference between book and tax values of assets and the associated accumulated depreciation) to accurately calculate non-current deferred operating taxes (account 4340).[8] For this reason, AAD's position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 36.121(c)(1) – Inaccurate Central Office Equipment Categorization

CONDITION

AAD obtained and examined the Beneficiary's power equipment and common equipment (P&C) allocation schedule to determine whether the Beneficiary (1) properly calculated the P&C allocation and (2) reported accurate central office equipment (COE) balances for High Cost Program purposes.

Pursuant to section 36.121 (c)(1)(i) of the FCC's rule, carriers are required to allocate their power and common equipment costs in proportion to their central office equipment investment, if such equipment cannot be directly assigned to a specific asset.[9] In 2001, carriers were permitted to freeze their COE category/sub-category relationships at the levels calculated during the twelve-month period ending December 31, 2000.[10]

The Beneficiary elected to freeze its COE category/sub-category relationships at the levels calculated during the twelve-month period ending December 31, 2000. However, during the audit period, the Beneficiary did not use those frozen categories/sub-category relationships in the calculation used to allocate its P&C. As a result, during the audit, AAD identified certain issues with the beneficiary's P&C allocation data.

First, as indicated in Table A below, the Beneficiary used COE balances in its P&C allocation schedule that did not agree to its general ledger (GL) balances at the account level (specifically, Account 2210 (COE Switching) and Account 2230 (COE Transmission)).[11]

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[8] §32.4340 - Net noncurrent deferred operating income taxes. (a) This account shall include the balance of income tax expense related to noncurrent items from regulated operations which have been deferred to later periods as a result of comprehensive interperiod tax allocation related to temporary differences that arise from regulated operations.
[9] *See* 47 CFR § 36.121(c) (providing, "the first step is the assignment of the equipment to categories…") and §36.121(c)(1)(i) (providing, "the common cost of equipment not assigned to a specific category (e.g., common power equipment)…is distributed among the categories in proportion to the cost of the equipment…").
[10] 47 C.F.R. § 36.121(c)(1)(i); *see In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board*, Report and Order, 16 FCC Rcd 11382 (2001).
[11] 47 C.F.R. § 32.13(e)(1).

TABLE A			
Account	**COE Balance per P&C Allocation Schedule (A)**	**COE Balance per GL (B)**	**Difference Overstated/ (Understated) (A)-(B)**
2210 – COE Switching	$568,251	$600,197	$(31,946)
2230 – COE Transmission	$517,711	$485,765	$31,946
Total COE	**$1,085,962**	**$1,085,962**	**$0**

Second, in its allocation schedule, the Beneficiary used total P&C investment amounts that did not agree to amounts reported in its continuing property records (CPR). As a result and as calculated in Table B, the Beneficiary understated its P&C investment by $8,408.[12]

Table B			
Description	**P&C Balance per P&C Allocation Schedule (A)**	**P&C Balance per CPR (B)**	**Difference Overstated/ (Understated) (A)-(B)**
Total Power and Common	$86,047	$94,455	$(8,408)

Finally, the Beneficiary did not use its elected COE frozen categories/sub-category relationships to calculate its P&C allocation (as discussed in Table C). Based on the application of the incorrect P&C allocation, the Beneficiary calculated inaccurate COE balances.

The Beneficiary must report accurate COE balances for High Cost Program purposes. To determine the correct categorized COE balances, AAD identified the P&C equipment in the Beneficiary's CPR and recalculated the P&C allocation using the COE balances from (1) the Beneficiary's GL and (2) the Beneficiary's frozen categories/sub-category relationships. As noted in Table C, AAD determined that the Beneficiary overstated its COE Category 3 balance by $56,731 and understated its Cat 4 balances by $55,763.

[12] *Id.*

Because the Beneficiary did not report the correct COE balances, AAD determined that the Beneficiary did not properly categorize its COE, and thus reported inaccurate COE balances.

Table C			
COE Category (Cat)	**COE Balance after P&C and other Cost Study Adjustments per Beneficiary's P&C Allocation Schedule (A)**	**COE Balance after P&C other Cost Study Adjustments per AAD Recalculation (B)**	**Difference Overstated/ (Understated) (A)-(B)**
Total Cat 3 - Local Switching Equipment	**$601,485**	**$544,754**	**$56,731**
Cat 4.11 - Wideband Exchange Line Circuit	$13,867	$15,489	$(1,622)
Cat 4.13 - Exchange Line Circuit Joint	$388,021	$433,412	$(45,391)
Cat 4.22 - Interexchange Circuit – Wideband	$15,888	$17,747	$(1,859)
Cat 4.23 - Interexchange Circuit - Other	$15,888	$65,806	$(6,892)
Total Cat 4 - Circuit Equipment	**$476,690**	**$532,453**	**$(55,763)**

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate COE balances for High Cost Program purposes. The Beneficiary informed AAD that it had categorized its COE CPR and calculated its power and common allocation before it became aware that the previous owners had made the election to freeze the Part 36 category allocation factors.[13]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the overstated amount from the relevant accounts, then adding the understated amount to the amount reported by the Beneficiary in the relevant accounts in its High Cost filing. The results are summarized below:

[13] Beneficiary Responses to audit inquiries, dated Nov. 28, 2018.

Support Type	Monetary Effect and Recommended Recovery
ICLS	$1,387

RECOMMENDATION
AAD recommends that USAC management seek recovery of the Recommended Recovery as identified in the Effect section.

The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE
> Orchard Farm was acquired in the year for which this audit applies. The classification of assets required Orchard Farm to accept the many, many decades of collective expertise and succeses [sic] of TDS (the party from whom ownership transferred) and GVNW (the cost consulting firm) with regards to the assets that TDS had been using to operate the company. If USAC auditors believe that their classification is better than that of these two firms, then that is their prerogative to so believe; however, it is not because of the cause stated within this finding. This is not a system failure, nor are we convinced the classifications are wrong, but again (see response to finding #1) it is a misunderstanding or difference of opinion.

AAD RESPONSE
The Beneficiary asserts that this finding is the result of a misunderstanding or difference of opinion as to what the correct numbers are for USF reporting purposes. AAD relied on the Beneficiary's books of record to calculate the value of the COE as well as the value of common equipment and power equipment. AAD relied on documentation from the Beneficiary that supported the Beneficiary's historically frozen categorization factors to recalculate the power and common allocation to the various COE subcategories. For these reasons, AAD's position on this finding remains unchanged.

Finding #4: 47 C.F.R. § 54.320(b) – Inadequate Documentation – Assets

CONDITION
AAD obtained and examined documentation to determine whether the Beneficiary reported accurate asset balances, including a sample of 26 asset transactions totaling $169,748 for High Cost Program purposes. The Beneficiary did not provide documentation to support a portion of the asset value for all samples selected for testing. The following table summarizes the overstated amounts by account:

Account Affected[14]	Number of Samples with Exception	Value of Samples with Exception	Unsupported Portion of Samples with Exception
2230 – Central Office Equipment – Transmission	11	$108,360	$19,811
2410 – Cable and Wire Facilities	15	$61,388	$9,472
Total	**26**	**$169,748**	**$29,284**

Because the Beneficiary was not able to provide supporting documentation, AAD concludes that the Beneficiary did not report accurate asset balances. The Beneficiary must maintain documentation to support the asset balances reported for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure the proper retention of records to demonstrate that assets were accurately recorded and reported for High Cost Program purposes. The Beneficiary informed AAD that the company changed ownership during the third quarter of 2014, and that these assets were acquired before the ownership change and portion of the supporting documentation was not obtained.[15]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the unsupported portion of the amounts reported by the Beneficiary from the respective general ledger accounts in its High Cost filing. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
ICLS	$1,313

RECOMMENDATION

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

The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate that assets were accurately recorded and reported in compliance with FCC Rules and Orders. In addition, the Beneficiary can learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

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[14] 47 C.F.R. § 32.2230 (2014); 47 C.F.R. § 32.2410 (2014).

[15] Beneficiary responses to audit results summary, received Jan. 8, 2019.

BENEFICIARY RESPONSE

All of the records for assets which were requested by USAC were provided by TDS. This is because no assets had yet been put in service by Orchard Farm during or prior to the time frame of the audit period. TDS provided the data and attempted to explain it all to USAC auditors. Clearly, USAC auditors believed their detail and description of what that information included and how costs were allocated was insufficient. Havaing [sic] participated as listeners in those conversations, it is the belief of Orcahrd [sic] Farm staff that the failure to understand belongs at the feet of USAC auditors and is not due to insufficient documentation nor inadequate accounting systems.

AAD RESPONSE

The Beneficiary asserts that rather than a lack of documentation, a lack of understanding once again, is the cause of this finding. As noted above, AAD requested documentation that would support the values recorded on the Beneficiary's books for certain COE and C&WF assets (26 in total). The Beneficiary was unable to supply sufficient documentation for AAD to verify that these assets were recorded at their correct values. For this reason, AAD's position on this finding is unchanged.

CRITERIA

Finding	Criteria	Description
#1, 4	47 C.F.R. § 54.320(b) (2014)	"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."
#1	47 C.F.R. § 32.2000(f)(2)(iii) (2014)	"The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also §32.2000(f)(3) of this subpart) of the property record units. The continuing property record and other underlying records of construction costs shall be so maintained that, upon retirement of one or more retirement units or of minor items without replacement when not included in the costs of retirement units, the actual cost or a reasonably accurate estimate of the cost of the plant retired can be determined."
#2	47 C.F.R. 54.1305 § (c), (h) (2014)	"(c) Unseparated accumulated depreciation and noncurrent deferred federal income taxes, attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. These amounts shall be calculated as of December 31st of the calendar year preceding each July 31st filing, and shall be stated separately. (h) Unseparated accumulated depreciation and noncurrent deferred federal income taxes attributable to local unseparated telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing."
#2	47 C.F.R. § 32.4340 (2014)	"(a) This account shall include the balance of income tax expense related to noncurrent items from regulated operations which have been deferred to later periods as a result of comprehensive interperiod tax allocation related to temporary differences that arise from regulated operations.

Finding	Criteria	Description
		(b) This account shall be credited or debited, as appropriate, and Account 7250, Provision for Deferred Operating Income Taxes - Net, shall reflect the offset for the tax effect of revenues and expenses from regulated operations which have been included in the determination of taxable income, but which will not be included in the determination of book income or for the tax effect of revenues and expenses from regulated operations which have been included in the determination of book income prior to the inclusion in the determination of taxable income. (c) As regulated assets or liabilities which generated the prepaid income tax or deferred income tax are reclassified from long-term or noncurrent status to current status, the appropriate deferred income tax shall be reclassified from this account to Account 4100, Net Current Deferred Operating Income Taxes. (d) The classification of deferred income taxes as current or noncurrent shall follow the classification of the asset or liability that gave rise to the deferred income tax. If there is no related asset or liability, classification shall be based on the expected turnaround of the temporary difference. (e)Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that are property related and those that are nonproperty related. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations."
#2	47 C.F.R. § 36.506 (2014)	"(a) Amounts in these accounts are maintained by plant account and are apportioned among the operations on the basis of the separations of the related plant accounts."
#3	47 C.F.R. §§ 36.121 (c)(1) (2014)	"(c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records. (1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories. (i) The cost of power equipment used by one category is assigned directly to that category, e.g., 130-volt power supply provided for circuit equipment. The cost of emergency power equipment

Finding	Criteria	Description
		protecting only power equipment used by one category is also assigned directly to that category. (ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment. (d) The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment."
#3	47 C.F.R. §§ 32.13(e)(1) (2014)	"(e) Where the use of subsidiary records is considered necessary in order to secure the information required in reports to any state commission, the company shall incorporate the following controls into their accounting system with respect to such subsidiary records: (1) Subsidiary records shall be reconciled to the company's general ledger or books of original entry, as appropriate."
#4	47 C.F.R. § 32.2230 (2014)	"This account shall be used by companies to record the original cost of radio systems and circuit equipment of the type and character detailed in Accounts 2231 and 2232."
#4	47 C.F.R. § 32.2410 (2014)	"This account shall be used by companies to record the original cost of cable and wire facilities of the type and character detailed in Accounts 2411 through 2441."