High Cost & Low Income

Audit Reports Briefing Book

Monday, October 26, 2020

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: August 5, 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Ayrshire Farmers Mutual Telephone **Attachment A**	5	• Inadequate Documentation - Expense and Affiliated Transactions. The Beneficiary did not provided adequate documentation to support certain expenses and affiliated transactions and was unable to support the allocation methodology used for certain expense transactions.	$386,098	$75,560	$75,560	Y
Cap Rock Telephone Cooperative **Attachment B**	0	• Not applicable.	$4,301,688	$0	$0	N
Craw-Kan Telephone Cooperative, Inc. **Attachment C**	6	• Inadequate Documentation - Assets and Expenses: The Beneficiary was unable to provide adequate documentation for 33 asset samples and 3 expense samples.	$2,172,023	$82,704	$82,704	N

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Farmers Mutual Telephone **Attachment D**	4	• Support Not Used for Intended Purposes: The 2016 cost study included expenses that were not related to provisioning, maintaining, or upgrading telecommunications service.	$1,119,249	$39,653	$39,653	N
Westgate Communications LLC **Attachment E**	3	• Inaccurate Loops and Access Line Counts: The Beneficiary 1) did not provide any supporting documentation for two subscribers noted within the billing documentation that it provided, 2) failed to include one subscriber in the Beneficiary's reported line counts, 3) included in its subscriber listing two subscribers that fell outside the designated service area, and 4) was unable to provide adequate documentation to support two subscribers.	$345,050	$13,551	$13,551	Y
Total	**18**		**$8,324,108**	**$211,468**	**$211,468**	

Attachment A

HC2017LR022

Universal Service Administrative Co.

Available For Public Use

Ayrshire Farmers Mutual Telephone Company

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

USAC Audit No. HC2017LR022

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EXECUTIVE SUMMARY

June 12, 2020

Don Miller
CEO
Ayrshire Farmers Mutual Telephone Company
844 Wood Street
Havelock, IA 50546

Dear Don Miller:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Ayrshire Farmers Mutual Telephone Company (Beneficiary), study area code 351105 disbursements for the year ended December 31, 2016, using 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 five detailed audit findings (Findings) as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with 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 Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Teleshia Delmar

Teleshia Delmar
Vice President, USAC 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: Expense and Affiliated Transactions. The Beneficiary did not provided adequate documentation to support certain expenses and affiliated transactions and was unable to support the allocation methodology used for certain expense transactions.	$48,614
Finding #2: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support. 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.	$15,925
Finding #3: 47 C.F.R. § 32.2(a)(b) and 47 C.F.R. § 32.1220(h) – Improper and Misclassified Assets and Expense Transactions. The Beneficiary incorrectly reported a portion of the Central Office Equipment (Transmission) accumulated depreciation and related depreciation expense to Cable and Wire Facilities accumulated depreciation and depreciation expense. In addition, the Beneficiary incorrectly recorded its inventory write-off to an incorrect account.	$9,659
Finding #4: 47 C.F.R. § 64.901(a) – Improper Inclusion of Non-Regulated Amounts. The Beneficiary did not remove the non-regulated portion of certain expense accounts.	$1,362
Finding #5: 47 C.F.R. § 32.2000 (e)(f) – Improper Continuing Property Records. The Beneficiary's continuing property records for Cable and Wire Facilities lacked sufficient detail for High Cost Program purposes.	$0
Total	**$75,560**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery from the Beneficiary for SAC 351105 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 directs that the Beneficiary

[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.

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	$36,399	$12,215	$0	$48,614	
Finding #2	$10,921	$5,004	$0	$15,925	
Finding #3	$8,214	$1,445	$0	$9,659	
Finding #4	$876	$486	$0	$1,362	
Finding #5	$0	$0	$0	$0	
Mechanism Total	**$56,410**	**$19,150**	**N/A**	**$75,560**	

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	$39,972
High Cost Loop (HCL)	2014	2016	$163,106
Interstate Common Line Support (ICLS)	2014	2016	$183,020
Total			**$386,098**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

[2] *Id.*

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: Expense and Affiliated Transactions

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary reported accurate expenses, including a sample of 26 expense transactions (including three affiliate transactions) totaling $64,551, for High Cost Program purposes. The Beneficiary was unable to provide adequate documentation to support nine of the 26 expense samples, totaling $25,417, of which two samples relate to affiliate transactions. In addition, the Beneficiary did not have adequate documentation to substantiate whether the allocation methodology used on seven of the 26 expense samples with exceptions were in accordance with the FCC rules.

Account Affected[3]	Exceptions Noted	Type	Number of Samples with Exception	Value of Samples with Exception	Unsupported Portion of Samples with Exception[4]
6121 – Land and Building Expense	Allocation Methodology[5]	Expense	2	$7,882	$427
6212 - Digital Electronic Switching Expense	Allocation Methodology	Affiliate	1	1,052	12,630
6423 – Buried Cable Expense	Allocation Methodology	Expense/ Affiliate[6]	2	5,852	17,429
6532 – Network Administration Expense	Allocation Methodology	Expense	1	6,062	6,062
6711 – Executive Expense	Allocation Methodology	Expense	1	2,475	29,700
6711 – Executive Expense	Missing Invoices	Expense	1	859	859
6721 – General Administrative Expense	Missing Invoices	Expense	1	1,235	14,820
Total			**9**	**$25,417**	**$81,927**

[3] 47 C.F.R. § 32.6121 (2014); 47 C.F.R. § 32.6212 (2014); 47 C.F.R. § 32.6423 (2014); 47 C.F.R. § 32.6532 (2014); 47 C.F.R. § 32.6711 (2002); C.F.R. § 32.6721 (2002).

[4] The valuation of exceptions is higher than the total value of sample as it is calculated by the number of occurrence throughout the year.

[5] The monetary effect for this exception is included in Finding # 4 - 47 C.F.R. § 64.901(a) – Improper Inclusion of Non-Regulated Amounts.

[6] One of the two expense samples with exception relates to affiliate transaction.

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

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 expenses were recorded in the proper amount and to the proper General Ledger account. The Beneficiary informed AAD that the monthly contract fees were allocated to the respective General Ledger expense accounts based on management's estimation of what type of operational tasks were being completed and the personnel skillsets that would be applied in these efforts.[7] The Beneficiary also indicated that the two companies were trying to simplify the shared operating agreement process with the desired effect to keep costs as low as possible for the Beneficiary, thus a formal allocation process was not better defined at the GL account level.[8] The Beneficiary informed AAD that going forward it will define the cost causation basis for the allocations of contract costs to the respective GL expense accounts.[9]

EFFECT

AAD calculated the monetary effect for this finding by subtracting $81,927, the recorded value of the expense transactions from the total amount reported by the Beneficiary in its respective accounts on the High Cost Program filing except for the two expense samples related to Land and Building Expense (account 6121) which monetary impact was already included in the Finding #4 – Improper Inclusion of Non-Regulated Portion of Expense. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$36,399
ICLS	12,215
CAF ICC	0
Total	**$48,614**

RECOMMENDATION

AAD recommends that 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 that expenses are recorded in the proper amount and to the proper general ledger account to

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

demonstrate compliance with the 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/.

BENEFICIARY RESPONSE

The Company has defined and implemented the cost causation basis for the allocations of contract costs to the respective GL accounts. It has implemented policies and procedures to ensure adequate documentation of expenses are retained. The Company is not clear, however, why the contract associated with the expenses in question would not constitute sufficient documentation, nor why the company may not recover any management fees in accordance with 47 C.F.R. § 54.303(a).

The issue in question, while rectified, was the result of the Company attempting reduce costs with no intent to committ fraud, waste, or abuse.

AAD RESPONSE

The Beneficiary asserts that its cost allocation for the expense transactions were based on cost causation basis. AAD examined the management agreement, monthly account allocation and explanations of the allocation. AAD noted that there is insufficient detail in the documentation provided to adequately support that its cost allocation was based on cost causative factors. For this reason, AAD's position on this finding remains unchanged.

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

CONDITION

AAD obtained and examined the Beneficiary's general ledger, continuing property records (CPR) and cost study adjustments to determine whether only costs necessary for the provision, maintenance, or upgrading of facilities were included in the account balances reported for High Cost Program purposes. The Beneficiary improperly recorded 20 expense transactions totaling $26,610 that were related to the sale of its business, donations, gifts, party supplies, and sponsorships of conferences for spouses of board members in Executive Expense (account 6710) and General and Administrative Expense (account 6720) that were not required for the provisioning, maintenance, or upgrading of facilities.[10] In addition, the Beneficiary included a cost study adjustment related to donations, totaling $1,870 in Non-operating Income and Expense (7300 account), which should have been excluded from its ICLS reporting. Because the Beneficiary included transactions that were not required for the provisioning, maintenance, or upgrading of facilities, AAD concludes that the expenses were not properly recorded for High Cost filings.

[10] Public Notice FCC 15-133 and FCC 18-29. See also 47 C.F.R. § 65.450(a); 47 U.S.C. § 254(e).

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude unallowable expenses from the amounts reported for High Cost Program purposes. The Beneficiary informed AAD that it believes that these evaluation costs (i.e., expense transactions related to sale of business) related to the board's discussion and review on their consideration of selling the Beneficiary are pertinent operating expenses.[11] The Beneficiary stated that the Board's role is to best evaluate what the best business operating environment is for their small company going forward and that this evaluation was used in the board's long range planning in regards to determining any impacts on future plant upgrade needs and meeting the company's continued operating expense obligations.[12] The Beneficiary also indicated that these issues all relate to ongoing operations and should be included as used for the provision, maintenance, and upgrading of facilities and services for which the cost support is intended.[13]

In addition, the Beneficiary informed AAD that it was not familiar with the applicable FCC Rules and Orders prior to the audit as it related to donations, gifts, party supplies, and sponsorships of conferences for spouses of board members.[14] The Beneficiary stated that these expenses have been customarily considered reasonable expenses and viewed as used and useful operating expenses.[15] Based on the FCC recent order (FCC 18-29), the Beneficiary has excluded these unallowable type expenses from being included in any operating expenses accounts in future filings.[16]

EFFECT

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

Support Type	Monetary Effect and Recommended Recovery
HCL	$10,921
ICLS	5,004
CAF ICC	0
Total	**$15,925**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly exclude unnecessary costs from the

[11] Beneficiary responses to audit results summary, received April 29, 2019 and May 9, 2019.
[12] *Id.*
[13] *Id.*
[14] *Id.*
[15] *Id.*
[16] *Id.*

amounts reported for High Cost Program purposes. 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 altered its accounting practices after the FCC's release of its Public Notice in October 2015 clarifiying certain aspects of includable costs. It indicated, among other things, that "membership fees and dues in clubs and organizations" were not recoverable through USF. This was styled as a "reminder," but as was noted in a series of comments after that, many of the items on that list HAD been treated as recoverable under then-existing rules. The Company appreciates AAD/USAC taking this into consideration and allowing the membership dues for this time period.

AAD RESPONSE

AAD clarifies that membership dues expenses were not to be recorded in regulated accounts pursuant to the FCC's Public Notice in WC Docket Nos. FCC 15-133, which clarified existing FCC Rules and Regulations. The Beneficiary in its response states that AAD/USAC took into consideration and allowed membership dues for this period. However, AAD did not allow the Beneficiary to recover the cost of the membership dues. As noted in the Condition, AAD took exception to the $26,610 that included sponsorships of conferences (related to the NTCA membership) that were not required for the provisioning, maintenance, or upgrading of facilities.

Finding #3: 47 C.F.R. § 32.2(a)(b) and 47 C.F.R. § 32.1220(h) – Improper and Misclassified Assets and Expenses Transactions

CONDITION

AAD obtained and examined the Beneficiary's general ledger, Continuing Property Records (CPR) and cost study adjustments to determine whether the Beneficiary recorded its assets and expenses in the proper amount and to the proper general ledger account for High Cost Program purposes. In our review of the Beneficiary's documentation, AAD determined that the Beneficiary incorrectly reported $31,380 of Central Office Equipment (COE) Transmission accumulated depreciation and $25,934[17] of related depreciation expense to Cable and Wire Facilities (CWF) accumulated depreciation and depreciation expense.[18] In addition, the Beneficiary incorrectly recorded $1,189 of inventory write off to Buried Cable Expense (account 6420) instead of Other Operating Expense-Provisioning Expense (account 6510).[19] Because the Beneficiary improperly recorded depreciation and accumulated depreciation for select COE and CWF transactions and misclassified an expense, AAD concludes that the Beneficiary's assets and expenses are not recorded in the

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[17] The difference of $5,447 between the accumulated depreciation and the depreciation expense ($31,380 -$25,984 = $5,447) relates to accumulated depreciation from prior periods; therefore, no impact on the current period expense.
[18] 47 C.F.R. § 32.2000(g)(2).
[19] 47 C.F.R. § 32.1220(h).

proper amount and to the proper general ledger account. The Beneficiary must properly record and report its assets and expenses for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly record assets and expenses to the proper general ledger account for High Cost Program purposes. The Beneficiary informed AAD that this issue occurred because the Beneficiary's cost consultant's input an error into the USAC High Cost data filing.[20]

EFFECT

AAD calculated the monetary effect for this finding by (1) adding the following amounts to the amount reported by the Beneficiary on the High Cost Program filings: (i) $31,380 to the COE Transmission accumulated depreciation account, (ii) $25,934 to the COE Transmission depreciation expense account, and (iii) $1,189 to the Other Operating Expense-Provisioning Expense account; and (2) subtracting the following amounts to the amount reported by the Beneficiary on the High Cost Program filings: (i) $31,380 from the CWF accumulated depreciation account, (ii) $25,934 from the CWF depreciation expense account, and (iii) $1,189 from the Buried Cable Expense account. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$8,214
ICLS	1,445
CAF ICC	0
Total	**$9,659**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly record assets and expenses to the proper general ledger account for High Cost Program purposes. 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

> This stemmed from an input error into the USAC High Cost Data Filing. Controls have been put in place to ensure this type of error will not be repeated.

[20] Beneficiary response to audit results summary, received April 24, 2019.

Finding #4: 47 C.F.R. § 64.901(a) – Improper Inclusion of Non-Regulated Amounts

CONDITION

AAD obtained and examined the Beneficiary's general ledger, Continuing Property Records (CPR) and cost study adjustments to determine whether non-regulated costs were excluded from the account balances reported for High Cost Program purposes. The Beneficiary did not apply the non-regulated allocation factor to remove the non-regulated portion on the balance for General Support Expense (account 6120), even though it did include regulated allocations for General Support assets and related asset and/or expense accounts. AAD recalculated the non-regulated allocation factor based on the Beneficiary's general support expense to total plant assets ratio, applied the factor to the total of general support expense balance, and determined that the Beneficiary should have removed $1,984 as the non-regulated portion of the general support expense for High Cost filing. Because the Beneficiary improperly included non-regulated amounts in its High Cost filing, AAD concludes that the Beneficiary did not report accurate general support expense balance. The Beneficiary must separate the regulated costs from non-regulated costs reported for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude non-regulated amounts from the amounts reported for High Cost Program purposes. The Beneficiary informed AAD that this issue occurred because there was an oversight of the allocation of the non-regulated portion of the repair expenses.[21] The Beneficiary also indicated that it would like to correct a response it provided in USAC audit inquiries record #86 noting that expense accounts 7993.1 and 7996.1 should be reflected in the calculation of the Non-Regulated Expense Adjustment Ratio percentage.[22] The Beneficiary stated that the applied ratio of 0.4298% should still be used as the above two accounts are for the contract labored billed to Northwest [its affiliate].[23] The Beneficiary also stated that contract labor rates billed included a 5% administrative fee that recovers the general support type expenses incurred by the Beneficiary in providing these services.[24] The Beneficiary indicated that it will adjust its accounting internal controls to better reflect allocations of the non-regulated portions of any General Support expenses.[25]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the non-regulated portion of the General Support Expense reported by the Beneficiary on the High Cost filing. The results are summarized below:

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[21] Beneficiary responses to audit results summary, received April 24, 2019 and May 9, 2019.

[22] *Id.*

[23] *Id.*

[24] *Id.*

[25] *Id.*

Support Type	Monetary Effect and Recommended Recovery
HCL	$876
ICLS	486
CAF ICC	**0**
Total	**$1,362**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly exclude non-regulated costs from the amounts reported for High Cost Program purposes. 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 has adjusted its accounting internal controls to better reflect allocations of the non-regulated portions of any General Support expenses.

Finding #5: 47 C.F.R. § 32.2000(e)(f) – Improper Continuing Property Records

CONDITION

AAD obtained and examined the Continuing Property Records (CPR) to determine whether the Beneficiary properly maintained its property records. The Beneficiary did not maintain a complete detailed CPR for Cable and Wire Facility (CWF) account 2423. Subsequent to AAD announcing the audit, the CPRs were updated. The Beneficiary's CPR for this account included:

- Carry forward balance for items listed as miscellaneous for $6,179 (pre-1966 assets) for which the Beneficiary could not provide the required information (e.g., asset's description, location, date of placement, the essential details of construction, and the original cost of the property record units).
- Assets placed in service since 1967, which appears to exceed the expected useful life.
- Additions of standalone negative entries to account for retired assets not properly removed from the CPR (i.e., instead of removing the retired asset originally recorded in CPR).

Because the Beneficiary did not list property investment at the asset level on the CPR and remove the asset from the CPR when retirements occur, AAD concludes that the Beneficiary did not maintained its CPR to provide for (1) the verification of property records units by physical examination, (2) accurate accounting for retirements, and (3) data for use in connection with depreciation studies.[26] The Beneficiary must maintain

[26] 47 C.F.R. § 32.2000(7)(i).2014).

detailed CPR that includes the description, location, date of placement, the essential details of construction, and the original cost of the property record units.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly include sufficient of detail. The Beneficiary informed AAD that this issue occurred because the pre-1996 CWF CPRs were not reconciled annually to reflect the CWF account balances.[27]

EFFECT

AAD determined that the monetary effect for this finding is de minimis. However, detailed CPR are an essential component of retiring assets when they are removed from service, or transferring assets among locations. While the monetary impact is de minimis, the failure to maintain CPR that include assets that can be physically verified with sufficient detail to accurately account for retirements increases the probability for errors in future High Cost Program filings.

RECOMMENDATION

The Beneficiary must implement an adequate system to maintain property records with the level of detail compliant with Part 32 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 will implement a system to maintain property records in accordance with Part 32 rules.

[27] Beneficiary response to audit results summary, received April 24, 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. § 32.6121 (2014).	"*Land and building expense.* (a) This account shall include expenses associated with land and buildings (excluding amortization of leasehold improvements). This account shall also include janitorial service, cleaning supplies, water, sewage, fuel and guard service, and electrical power. (b) The cost of electrical power used to operate the telecommunications network shall be charged to Account 6531, Power Expense, and the cost of separately metered electricity used for operating specific types of equipment, such as computers, shall be charged to the expense account appropriate for such use."
#1	47 C.F.R. § 32.6212 (2014).	"*Digital electronic switching expense.* (a) This account shall include expenses associated with digital electronic switching. Digital electronic switching expenses shall be maintained in the following subaccounts: 6212.1 Circuit, 6212.2 Packet. (b) This subaccount 6212.1 Circuit shall include expenses associated with digital electronic switching equipment used to provide circuit switching. (c) This subaccount 6212.2 Packet shall include expenses associated with digital electronic switching equipment used to provide packet switching."
#1	47 C.F.R. § 32.6423 (2014).	"*Buried cable expense.* (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."
#1	47 C.F.R. § 32.6532 (2014).	"*Network administration expense.* This account shall include costs incurred in network administration. This includes such activities as controlling traffic flow, administering traffic measuring and monitoring devices, assigning equipment and load balancing, collecting and summarizing traffic data, administering trunking, and assigning interoffice facilities and circuit layout work."
#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

Finding	Criteria	Description
		similar policy boards and all board designated officers of the company and their office staffs, e.g., secretaries and staff assistants."
#1	47 C.F.R. § 32.6721 (2002).	"*Accounting and finance.* This account shall include costs incurred in 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), noncustomer 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."
#2	47 C.F.R. § 65.450(a) (2014).	"Net income shall consist of all revenues derived from the provision of interstate telecommunications services regulated by this Commission less expenses recognized by the Commission as necessary to the provision of these services. The calculation of expenses entering into the determination of net income shall include the interstate portion of plant specific operations (Accounts 6110-6441), plant nonspecific operations (Accounts 6510-6565), customer operations (Accounts 6610-6623), corporate operations (Accounts 6720-6790), other operating income and expense (Account 7100), and operating taxes (Accounts 7200-7250), except to the extent this Commission specifically provides to the contrary."
#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	47 U.S.C. § 254 (e)(2014).	"After the date on which Commission regulations implementing this section take effect, only an eligible telecommunications carrier designated under section 214(e) of this title shall be eligible to receive specific Federal universal service support. A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Any such support should be explicit and sufficient to achieve the purposes of this section.
#2	FCC 15-133 (2015).	"Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements;

Finding	Criteria	Description
		• Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and" Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages."
#2	FCC 18-19 (2018).	"19. Personal Expenses.—Initially, we codify the existing prohibition on recovery from the high-cost program for personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for personal travel, personal vehicles, housing, such as rent, mortgages, or housing allowances, childcare, employee gifts, and entertainment-related expenses including food and beverage, regardless of whether such expenses are paid directly by the individual or indirectly by the carrier in the form of allowances or gifts. Personal expenses are clearly not used for the provision of supported services and thus may not be recovered through high-cost support. Furthermore, we caution recipients of high-cost support that recovering these types of expenses from high-cost support may constitute outright fraud, waste, and abuse on the Fund, subjecting employees, executives, and board members to personal civil and criminal liability. 20. The Commission already explicitly excludes personal travel expenses from high-cost support recovery. Personal travel expenses include airfare, car rentals, gas, lodging, and meals for personal use. Commenters overwhelmingly agree that personal travel is unrelated to the provision of a supported service and may not be recovered through high-cost support. In response to concerns raised by commenters, we find that, in contrast to personal travel expenses, reasonable work-related travel expenses are recoverable to the extent they are used for the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended. For example, if an ETC's technician travels to repair a supported facility and such travel requires overnight accommodation, the ETC may recover that employee's reasonable hotel costs. 25. It is undisputed that gifts to employees may not be recovered through high-cost support. Gifts to employees are unrelated to

Finding	Criteria	Description
		the provision, maintenance, and upgrading of facilities and services for which high-cost support is intended, and therefore are excluded from high-cost support. 28. Expenses Unrelated To Operations.—We next codify the existing prohibitions on recovering support for expenses unrelated to operations—including political contributions, charitable donations, scholarships, membership fees and dues in clubs and organizations, sponsorships of conferences or community events, and penalties or fines for statutory or regulatory violations, penalties or fees for late payments on debt, loans, or other payments—from high-cost support. ETCs calculate high cost universal support, including high cost loop support (HCLS) and Connect America Fund Broadband Loop Support (CAF BLS) (formerly interstate common line support (ICLS)), based on their eligible capital investment and operating expenses pursuant to section 54.303. Expenses unrelated to operations, however, are not currently included in these high-cost support calculations. Instead, under our current rules, “nonoperating expenses”—including political contributions, contributions for charitable, social, or community welfare purposes, membership fees and dues in social, service and recreational or athletic clubs and organizations, and penalties and fines on account of violations of statutes—are recorded in Account 7300, presumed excluded from the costs of service in setting rates, and not included in high-cost support calculations. Expenses unrelated to operations have historically not been recoverable from high-cost support because by definition these expenses are not operational in nature and are ancillary to core business objectives. Expenses must fall within the scope of the statutory requirement that support be used “only for the provision, maintenance, and upgrading of facilities and services for which support is intended.” Below we find that various expenses unrelated to operations, including various Account 7300 nonoperating expenses, do not satisfy this standard and, thus, may not be recovered from high-cost support. 31. Charitable donations and scholarships are expenses unrelated to operations that may not be recovered from high-cost support. We recognize the benefits charitable donations provide to the community, as raised by multiple commenters. However, charitable donations are unrelated to the provision, maintenance, and upgrading of facilities and services for which the high-cost support is intended."
#3	47 C.F.R. §§ 32.2(a)(b) (2014).	“(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e.,

Finding	Criteria	Description
		the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers."
#3	47 C.F.R. § 32.1220(h) (2014).	"Inventories of material and supplies shall be taken periodically or frequently enough for reporting purposes, as appropriate, in accordance with generally accepted accounting principles. The adjustments to this account shall be charged or credited to Account 6512, Provisioning expense."
#3	47 C.F.R. § 32.2000(g)(2) (2014)	"(g) *Depreciation accounting* (2) *Depreciation charges.* (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected

Finding	Criteria	Description
		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."
#4	47 C.F.R. § 64.901(a) (2014).	"(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose."
#5	47 C.F.R. § 32.2000(e)(f) (2014).	"(e) *Basic property records.* (1) The basic property records are that portion of the total property accounting system which preserves the following detailed information: (i) The identity, vintage, location and original cost of units of property; (6)(i) The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). (7)(i)The continuing property records shall be maintained as prescribed in §32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives: (A) Provide for the verification of property record units by physical examination. (B) Provide for accurate accounting for retirements. (C) Provide data for use in connection with the depreciation schedule. (f) *Standard practices for establishing and maintaining continuing property records—* (2) *Property record units.* (iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also paragraph (f)(3) of this section) of the property record units. The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts) and maintained in such manner as will provide for the verification of property record units by physical examination. 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. (5) *Identification of property record units.* There shall be shown in the continuing property record or in record supplements thereof, a complete description of the property records units in such detail as to

Finding	Criteria	Description
		identify such units. The description shall include the identification of the work order under which constructed, the year of installation (unless not determinable per §32.2000(f)(4) of this subpart, specific location of the property within each accounting area in such manner that it can be readily spot-checked for proof of physical existence, the accounting company's number or designation, and any other description used in connection with the determination of the original cost.”

Attachment B

HC2019BE015

Available For Public Use

Cap Rock Telephone Cooperative
Audit ID: HC2019BE015
(SAC No.: 442046)

Performance audit for the Universal Service High Cost Program Disbursements made during the twelve-month period ended December 31, 2018

Prepared for: Universal Service Administrative Company

As of Date: July 31, 2020

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

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KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

EXECUTIVE SUMMARY

July 31, 2020

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

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to the Cap Rock Telephone Cooperative ("Beneficiary"), Study Area Code ("SAC") No. 442046, ("Cap Rock") for disbursements, of $4,301,688, made from the Universal Service High Cost Program ("HCP") during the twelve-month period ended December 31, 2018. Our work was performed during the period from October 14, 2019 to July 31, 2020, and our results are as of July 31, 2020.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2018 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the Federal Communications Commission's ("FCC") Rules as well as specified FCC Orders governing federal Universal Service Support for the HCP (collectively, the "Rules") relative to disbursements, of $4,301,688, made from the HCP during the twelve-month period ended December 31, 2018. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As our report further describes, KPMG did not identify any findings as a result of the work performed.

We noted other matters that we have reported to the management of the Beneficiary in a separate letter dated July 31, 2020.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC to a requesting third party.

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
ACAM	Alternative Connect America Cost Model
ARC	Access Recovery Charge
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF ICC	Connect America Fund Intercarrier Compensation
Cap Rock	Cap Rock Telecommunications Cooperative
COE	Central Office Equipment
CPRs	Continuing Property Records
ETC	Eligible Telecommunications Carrier
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
HCP	High Cost Program
ICLS	Interstate Common Line Support
ILEC	Incumbent Local Exchange Carrier
NECA	National Exchange Carrier Association
SAC	Study Area Code
SLC	Subscriber Line Charge
SNA	Safety Net Additive
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

KPMG's performance audit procedures identified no findings.

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results. USAC management notes that there is no recovery associated with the audit results. Thus, USAC management will not seek recovery at this time. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

BACKGROUND

Program Overview

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the USF through four support mechanisms: High Cost; Lifeline; Rural Health Care; and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations or advocate regarding any matter of universal service policy.

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

1. HCL: HCL support is available for rural companies operating in service areas where the cost to provide service exceeds 115% of the national average cost per line. HCL support includes the following two sub-components:
    a. SNA: SNA support is available for carriers that make significant investment in rural infrastructure in years when HCL support is capped and is intended to provide carriers with additional incentives to invest in their networks.
    b. SVS: SVS support is available to rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.
2. CAF ICC: CAF ICC support is available to ILECs to recover revenue that is not covered by Access Recovery Charges (ARC) to the end user.
3. ICLS: ICLS is available to rate-of-return incumbent carriers and competitive carriers, and is designed to help carriers offset interstate access charges and to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its SLCs remain affordable to its customers.
4. CAF BLS: CAF BLS provides support for voice and broadband service, including stand-alone broadband. CAF BLS provides support for rate-of-return carriers to the extent that SLC caps do not permit them to recover their common line revenue requirements. CAF BLS replaced ICLS effective July 1, 2016.
5. ACAM: ACAM provides funding to rate-of-return carriers that voluntarily elected to transition to a new cost model for calculating High Cost support in exchange for meeting defined broadband build-out obligations.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $4,301,688, made from the HCP during the twelve-month period ended December 31, 2018.

Beneficiary Overview

Cap Rock Telephone Cooperative (SAC No. 442046), the subject of this performance audit, is a local exchange carrier located in Spur, Texas that serves over 2,700 customers within and areas surrounding Spur, Texas. Cap Rock provides a variety of residential and commercial telephone services; local and long distance services; high speed internet services; as well as digital TV.

During 2016, Cap Rock had approximately 40 employees. Cap Rock Telephone Cooperative owned and operated 16 exchanges in 12 counties. Cap Rock Telephone's infrastructure included a little over 1000 miles of fiber optic cable and more than 2,800 miles of buried cable to provide service to subscribers. Cap Rock Telephone served exchanges located in Afton, Dickens, Dry Lake, Flomot, Girard, Hackmont, Jayton, Matador, Paducah, Peacock, Quitaque, Roaring Springs, Spur, Turkey, Verbena, and White River.

The Beneficiary had one subsidiary, CR Telco, Inc., which is wholly-owned by Cap Rock Telephone Cooperative. CR Telco, Inc. was organized in 1983 to conduct the non-regulated activities of Cap Rock Telephone Cooperative. The primary business activities of CR Telco, Inc. include: long distance services, cable and equipment leasing, internet services, cable television sales and services, and installation and maintenance of telecommunication and television equipment.

The following table illustrates the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2018 by fund type:

High Cost Support	Disbursement Amount
High Cost Loop (HCL)	$1,813,584
Connect America Fund (CAF) Broadband Loop Support (BLS)	$1,494,564
Connect America Fund (CAF) Intercarrier Compensation (ICC)	$933,966
Interstate Common Line Support (ICLS)	$59,574
Total	**$4,301,688**

Source: USAC

The High Cost support received by the Beneficiary during the twelve-month period ended December 31, 2018, was based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2017-1, 2017-2, 2017-3 and 2017-4 HCL Forms, based on the twelve-month periods ended December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, respectively,
- 2016 FCC Form 509, based on data from the twelve month period ended December 31, 2016, and
- 2016 CAF ICC Tariff Review Plan (TRP), based on the twelve month period ended June 30, 2017

The above Forms capture line count data and the totals of certain pre-designated G/L Accounts including all asset accounts that roll into the TPIS account as well as certain deferred liabilities and operating expenses, subject to the allocation between regulated and non-regulated activities (Part 64 Cost Allocations), the separation between interstate and intrastate operations (Part 36

Separations) and the separation between access and non-access elements (Part 69 Separations). In addition, the Beneficiary is required to submit certain annual investment data, including the categorization of COE and C&WF on the HCP Forms.

OBJECTIVES

The audit objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules as well as specified FCC Orders governing federal Universal Service Support for the HCP relative to disbursements, of $4,301,688, made from the HCP during the twelve-month period ended December 31, 2018.

SCOPE

The scope of this performance audit includes, but is not limited to, reviewing HCP Forms or other correspondence and supporting documentation provided by the Beneficiary, assessing the Beneficiary's methodology used to prepare or support the HCP Forms or other correspondence, and evaluating disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work is focused on the HCP Forms or other correspondence filed by the Beneficiary that relate to disbursements made from the HCP during the twelve-month period ended December 31, 2018, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the HCP during the twelve-month period ended December 31, 2018.

KPMG identified the following areas of focus for this performance audit:[1]

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

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

PROCEDURES

1. **General Procedures**

   KPMG obtained and examined the ETC designation order to determine whether the Beneficiary was designated as an ETC in the study area prior to receiving HCP support. We obtained and examined the Beneficiary's state and/or self-certification letters for timeliness and the notation that all federal HCP support provided was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. We also obtained the Form 481 filed by the Beneficiary to determine whether the Beneficiary made the required certifications and whether the Beneficiary's supporting documentation agrees to the data reported for the certifications made.

2. **Materiality Analysis**

   For the applicable HCP Forms, we obtained the forms submitted for the periods ended December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, input the information into KPMG's HCP models, and ran an automated materiality analysis that increased and decreased the account balances by +/- 50%, if the impact generated a +/- 5% or $100,000 change to overall disbursements, the individual line item/account was considered material for purposes of our performance audit.

3. **Reconciliation**

   KPMG obtained the audited 2016 and 2017 financial statements and reconciled to the G/L, from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable HCP Forms. We obtained explanations for any reconciling differences.

4. **Assets**

   KPMG utilized a monetary unit sampling methodology to select asset samples from material accounts identified in the relevant HCP Forms. Asset selections were made from CPR details, and material accounts included COE, C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by reviewing underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the work orders and verified proper Part 32 categorization; and validated the physical existence of selected assets.

5. **Expenses**

   KPMG utilized a monetary unit sampling methodology to select expense samples from material accounts identified in the relevant HCP Forms. Expense selections were selected via monetary unit sampling from material operating expense accounts identified in the relevant HCP Forms (HCL and ICLS). Expense amounts were compared to the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus nonregulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

6. **HCP Eligibility Forms**

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

7. COE Categorization

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

8. C&WF Categorization

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

9. Overhead

KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2016 and 2017. Additionally, we reviewed overhead clearing reports for a selected month and reviewed the overhead clearance process for compliance with Part 32 requirements.

10. Taxes

KPMG determined the tax filing status for the Beneficiary as a C Corp and obtained and reviewed the federal and state tax filings for 2016 and 2017. KPMG reviewed the tax provision and deferred income tax provision calculations, including supporting documentation, for reasonableness and developed an expectation of the effective tax rate. Additionally, we reviewed the Part 64 apportionment of operating tax account balances and evaluated the reasonableness of cost allocation methods.

11. Part 64 Cost Allocations

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

12. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions that occurred during 2016 and 2017. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For each type of affiliate transaction, KPMG selected the highest dollar item. Additionally, KPMG selected a transaction for each contract that is associated between Cap Rock and its affiliate. For the sample selected, we reviewed the business purpose of each transaction and determined if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and categorized in the appropriate Part 32 accounts.

13. Revenues, Subscriber Listings and Billing Records

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

14. Revenue Requirement

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

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary responses, with respect to the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69, applicable to the disbursements made from the HCP during the twelve-month period ended December 31, 2018. USAC management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

KPMG's performance audit procedures identified no findings.

CONCLUSION

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69 applicable to the disbursements made from the HCP during the twelve-month period ended December 31, 2018 identified no findings.

Attachment C

HC2017LR014

Available For Public Use

Available For Public Use

Craw-Kan Telephone Cooperative, Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR014

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EXECUTIVE SUMMARY

June 19, 2020

Craig R. Wilbert
Craw-Kan Telephone Cooperative, Inc.
200 N Ozark St.
Girard, KS 66743

Dear Mr. Wilbert:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Craw-Kan Telephone Cooperative, Inc. (Beneficiary), study area code 421759 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 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 six 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: Assets and Expenses: The Beneficiary was unable to provide adequate documentation for 33 asset samples and 3 expense samples.	$39,479
Finding #2: 47 C.F.R. § 64.901(b)(3)(ii) – Inaccurate Allocation Factors: The Beneficiary's indirect cost allocations for the intercompany activities, as well as the regulated and nonregulated activities, as reflected in the Part 64 Cost Study, were based on inaccurate factors.	$15,251
Finding #3: 47 C.F.R. § 54.320(b) – Lack of Documentation – Adjustments: The Beneficiary was unable to provide documentation for one intercompany adjustment and one cost study adjustment.	$14,053
Finding #4: 47 C.F.R. § 36.151(c) – Miscategorized Cable and Wire Facilities: The Beneficiary did not categorize its cable and wire facilities costs appropriately, and did not remove the nonregulated portion of Category 1 investments.	$11,065
Finding #5: 47 C.F.R. § 54.7(a), FCC 15-133, and 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.	$3,952
Finding #6: 47 C.F.R. § 32.2000(g) – Inaccurate Depreciation Calculation: The Beneficiary used beginning monthly balances instead of the average monthly balances to compute depreciation expense and accumulated depreciation, and made calculation errors in computing the depreciation expense and accumulated depreciation for various accounts.	($1,096)
Total	**$82,704**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for the High Cost Program support amount noted in the chart below. Note: USAC's High Cost Program Management does not net findings across SACs and High Cost does not pay additional support in the event of a finding of underpayment. The Beneficiary must implement policies and procedures necessary to comply 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.

USAC directs 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	$30,865	$8,614	$0	$39,479	
Finding #2	$10,486	$4,765	$0	$15,251	
Finding #3	$0	$14,053	$0	$14,053	
Finding #4	$8,009	$3,056	$0	$11,065	
Finding #5	$2,184	$1,768	$0	$3,952	
Finding #6	($782)	($314)	$0	($1,096)	
Mechanism Total	**$50,762**	**$31,942**	**$0**	**$82,704**	

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	$294,582
High Cost Loop (HCL)	2014	2016	$1,018,075
Interstate Common Line Support (ICLS)	2014	2016	$859,366
Total			**$2,172,023**

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

[2] *Id.*

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 and Expenses

CONDITION

AAD obtained and examined documentation, including a sample of 55 assets and 16 expenses totaling $6,334,939, 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:

Exceptions Noted	Number of Exceptions	Type	Account[3]	Value of Samples With Exceptions	Unsupported Portion of Samples With Exceptions[4]
Missing Invoices and Documentation Not Agree to Amounts	1	Asset	Circuit Equipment (2232)	$545,040	$724
Missing Invoices and Documentation Did Not Agree to Amounts Reported	17	Asset	Circuit Equipment (2232)	$293,177	$87,451[5]
Missing Invoices and Documentation Did Not Agree to Amounts Reported	15	Asset	Cable and Wire Facilities (2410)	$2,788,350	$220,207[6]
Documentation Did Not Agree to Amounts Reported	1	Expense	Circuit Equipment Expense (6232)	$7,829	$1,102
Missing Invoices and Documentation Did Not Agree to Amounts Reported	2	Expense	General & Administrative (6720)	$36,913	$4,126[7]
			Total	**$3,671,309**	**$313,610**

[3] *See* 47 C.F.R. §§ 32.2232 (2014), 32.2410 (2014), 32.6232 (2014), and 32.6720 (2014).

[4] The values represent the Beneficiary's portion of joint expenses that are shared with another study area. In addition, for any joint expenses utilizing the Big 3 expense factor (*see* 47 C.F.R. § 69.2(e)), AAD utilized the recalculated factor as noted in Finding #3.

[5] The Beneficiary did not provide adequate documentation for one work order, thus the unsupported portion of exception dollars includes circuit equipment noted within this work order that was not part of the original list of asset sample selections.

[6] The Beneficiary did not provide adequate documentation for one work order, thus the unsupported portion of exception dollars includes cable and wire facilities equipment noted within this work order that was not part of the original list of asset sample selections.

[7] One of the two sample items was for a recurring monthly transaction; thus, AAD noted an exception for the entire year.

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 its asset and expenses transactions, AAD concludes that a portion of 36 transactions were not recorded in the proper amount; 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 its assets and expenses were recorded in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that this issue occurred for the following reasons:[8]

- Regarding the central office equipment (COE) assets, the Beneficiary informed AAD that continuing property records (CPR) costs were allocated by a third party vendor that utilized a specific allocation methodology. The Beneficiary no longer uses nor has access to this third party vendor and their allocation methodology.
- The Beneficiary recorded one COE asset, valued at $545,040, incorrectly in the general ledger due to human error at the time of booking.
- With respect to one cable and wire facilities (CWF) asset, valued at $128,436, the Beneficiary was unable to locate relevant had documents.

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by subtracting the value of the unsupported portions of the 33 assets and 3 expense transactions, totaling $313,610 and any associated accumulated depreciation and depreciation expense, from the balances reported by the Beneficiary in its respective accounts in its High Cost filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	$30,865
ICLS	$8,614
CAF ICC	$0
Total	**$39,479**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate assets and expense transactions are recorded in the proper amount and to the proper general ledger account to demonstrate compliance with FCC Rules and Orders. The Beneficiary can learn more information about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

[8] Beneficiary response to audit exception summary, received August 23, 2019.

BENEFICIARY RESPONSE

Craw-Kan no longer uses a 3rd party vendor to complete their CPR's, processes are in place to assure that overhead dollars are allocated to each line items and properly allocated and recorded. All supporting documents needed to support any allocation method and invoices for new equipment are also in place.

Craw-Kan has requested the engineers to reconcile the quantity on the staking sheets to the invoice before paying the invoice to ensure the proper quantities are accounted for.

Craw-Kan will continue to train its staff in order to make sure proper documentation is kept and recorded to the proper work orders.

Craw-Kan has reviewed the record retention requirements and have updated their procedures to conform with those requirements. Craw-Kan will also check and modify their processes with any record retention requirement changes.

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

CONDITION

AAD obtained and examined documentation including square footage, labor hours, and office space used as the basis to support the Beneficiary's cost study allocation factors to determine whether its cost study adjustments were accurately calculated for High Cost Program purposes for the year ended December 31, 2014. The Beneficiary's based its indirect cost allocations for the intercompany activities,[9] as well as the regulated and nonregulated activities, as reflected in the Part 64 Cost Study, on inaccurate factors. Specifically, the Beneficiary allocated certain intercompany expense accounts based on the number of toll calls and carrier access revenues that occurred in 1997. AAD determined that using the number of toll calls and carrier access revenues from 1997 was outdated in comparison to the audit period (2014)[10] and using carrier access revenues as an allocation factor was not cost causative. In addition, the Beneficiary informed AAD that it had miscalculated both the non-regulated allocation factor that was used for general support asset cost study adjustments and the Big 3 expenses[11] allocation factor that was used for intercompany adjustments due to input error.

In the table below, we summarized the net effect of the variances between the Beneficiary's allocation factors for intercompany and cost study adjustments as reported in its High Cost Program filings and the AAD recalculated allocation factors that was based on 2014 cost data:

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[9] The Beneficiary maintains joint accounting records with one additional study area. In order to separate its joint transactions for cost study purposes, the Beneficiary performs intercompany adjustments at year-end for its high cost filings.

[10] 47 C.F.R. § 64.903(b) (2014).

[11] 47 C.F.R. § 69.2(e) (2014).

Account[12]	Type of Adjustment	Type of Exception Noted	Beneficiary Allocation Factor	AAD Recalculated Factor Based on 2014 Data	Increase (Decrease) to Adjustment
Inventory (1220)	Intercompany	Miscalculated	16.90%	16.29%	($5,550)
Land & Support Assets (2110)	Part 64 Cost study	Miscalculated	19.96%	24.80%	$8,330
Accumulated Depreciation – General Support (3100)	Part 64 Cost study	Miscalculated	19.96%	24.80%	$6,901
General Support Expense (6120)	Part 64 Cost study	Miscalculated	19.96%	24.80%	$382
Depreciation Expense – General Support (6561)	Part 64 Cost study	Miscalculated	19.96%	24.80%	$400
Customer Services Expense (6623)	Intercompany	Outdated	6.68%	16.62%	$205
Customer Services Expense (6623)	Intercompany	Outdated; Not Cost Causative	28.16%	16.62%	($2,341)
Executive Expense (6710)	Intercompany	Miscalculated	16.26%	15.08%	($5,703)
General & Administrative Expense (6720)	Intercompany	Miscalculated	16.26%	15.08%	($15,131)
Non-operating Income & Expense (7300)	Intercompany	Miscalculated	16.26%	15.08%	($850)
		Total			**($13,357)**

AAD determined that the Beneficiary did not properly calculated, record, or base its adjustments on cost causative factors. Thus, AAD concludes that the Beneficiary did not accurately report its cost study balances for High Cost Program purposes.

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[12] *See* 47 C.F.R. §§ 32.1220 (2014), 32.2110 (2014), 32.3100 (2014), 32.6120 (2014), 32.6561 (2014), 32.6623 (2014), 32.6710 (2014), 32.6720 (2014), and 32.7300 (2014).

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 and regulated and nonregulated transactions are based on updated information, cost causative factors, and accurate calculations. The Beneficiary informed AAD that this issue was caused by errors in the cost consultant's work papers used to develop cost study adjustments.[13]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by adding or deducting the variances noted in the table above, from the total amount reported by the Beneficiary in its respective accounts on its High Cost Program filing.

Support Type	Monetary Effect and Recommended Recovery
HCL	$10,486
ICLS	$4,765
CAF ICC	$0
Total	**$15,251**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with the Rules. The Beneficiary may learn more information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> The cost consultant has removed the out dated allocation method to ensure the errors are not carried forward. The cost consultant has also put into place methods to review each allocation with Craw-Kan each year to ensure accounts are treated correctly.

Finding #3: 47 C.F.R. § 54.320(b) – Lack of Documentation: Adjustments

CONDITION

AAD requested documentation, including supporting documentation for adjustments, to determine whether the Beneficiary recorded its cost study balances in the proper amount and to the proper general ledger account for High Cost Program purposes. The Beneficiary did not provide documentation for one intercompany adjustment that was recorded at a total value of $46,209 in Account 6622 (Number Services

[13] Beneficiary response to audit exception summary, received August 23, 2019.

Expense),[14] and one cost study adjustment that was recorded at a total value of $54,272 in Account 2003 (Telecommunications Plant Under Construction).[15]

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its adjustments in the proper amount and to the proper general ledger account. Because the Beneficiary did not provide documentation to substantiate these adjustments, AAD concludes that the balances reported for High Cost Program purposes were not accurate.

CAUSE

The Beneficiary did not have documentation or data retention procedures to ensure the proper retention of records to demonstrate that it had recorded adjustments in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that historically, its cost consultant had made these adjustments with input from the Beneficiary in the form of an email to the cost consultant; and, there is only an email stating what the adjustment amount should be.[16]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the recorded value of the intercompany adjustment from the total amount reported by the Beneficiary for Account 6620 and adding the recorded value of the cost study adjustment to the total amount reported by the Beneficiary for Account 2003 in its High Cost filings. The results are summarized below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$0
ICLS	$14,053
CAF ICC	$0
Total	**$14,053**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with FCC Rules and Orders. The Beneficiary can learn more information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

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[14] *See* 47 C.F.R. § 32.6622 (2014).
[15] *See* 47 C.F.R. § 32.2003 (2014).
[16] Beneficiary response to audit exception summary, received August 23, 2019.

BENEFICIARY RESPONSE

Moving forward, Craw-Kan will provide the cost consultant with a detailed report showing which GL entries are to be moved between companies and out of the cost study.

Finding #4: 47 C.F.R. § 36.151(c) – Miscategorized Cable and Wire Facilities

CONDITION

AAD obtained and examined the Beneficiary's documentation including the Beneficiary's cost study allocation for Category 1 Cable and Wire Facilities (CWF) equipment to determine whether the Beneficiary's cost study amounts were accurately reported for High Cost Program purposes for the year ended December 31, 2014. The Beneficiary utilized the residual method to categorize its Category 1 CWF assets. The residual method consists of identifying all Category 2, 3, and 4 CWF assets and deducting these assets from the total CWF balance to determine what should be reported as the Category 1 CWF balance.

The Beneficiary must only apportion to Category 1 CWF the costs for facilities that are used to connect an exchange's central offices to subscriber premises in that same exchange.[17] As a result of examining the Beneficiary's interexchange route allocation documentation to determine whether interexchange route costs were accurately calculated, AAD noted that the Beneficiary incorrectly categorized its interexchange route investments as Category 1, which resulted in an overstatement of its CWF Category 1 amount.

In addition, the Beneficiary informed AAD that the interexchange route investment that was allocated to non-regulated was not removed from the 2014 cost study,[18] resulting in an additional overstatement of Category 1 CWF. In the table below, AAD summarizes the interexchange route categorization variances between the Beneficiary's original categorization and AAD's recalculated categorization:

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[17] *See* 47 C.F.R. 47 § 36.152(a)(1).

[18] Beneficiary response to email inquiry, received February 3, 2020.

Table 1: Interexchange Route Categorization				
CWF Category	**CWF Category Descriptions**	**Original as Reported**	**AAD Recalculation**	**Variance**
1	Exchange Line CWF Excluding Wideband	$1,708,920	$1,686,523	$22,397
Subtotal of Category 1 Amount		**$1,708,920**	**$1,686,523**	**$22,397**
2	Wideband and Exchange Trunk CWF-Extended Area Service	$27,151	$30,937	($3,786)
3.1	Interexchange CWF-Digital Subscriber Line	$439,861	$439,947	($86)
3.2	Interexchange CWF-Wideband	$29,358	$33,796	($4,438)
3.3	Interexchange CWF-Toll	$494,489	$498,364	($3,875)
Subtotal of Category 2 and 3 Amounts		**$990,859**	**$1,003,044**	**($12,185)**
Non-regulated		$73,215	$83,427	($10,212)
Subtotal of Nonregulated Amount		**$73,215**	**$83,427**	**($10,212)**
Grand Total		**$2,772,994**	**$2,772,994**	**$0**

As summarized below, AAD has noted the variances between the Beneficiary's Category 1 investment reporting and the revised Category 1 investment balance after the application of the revised interexchange categorization noted in Table 1 are noted in the following table:

Table 2: Revised CWF Category 1 Residual Calculation			
	Original Reported Data [A]	**AAD Recalculation [B]**	**Variance [C = A - B]**
CWF Asset Balance	$14,890,092	$14,890,092	$0
Less Nonregulated	$0	$83,427	($83,427)
Less Subtotal of Category 2 and 3 Costs	$990,859	$1,003,044	($12,185)
Category 1 CWF Asset Balance	**$13,899,233**	**$13,803,621**	**$95,612**
Less Wideband Adjustment	$85,272	$84,685	$587
Category 1 CWF Amount	**$13,813,961**	**$13,718,936**[19]	**$95,025**

Because the Beneficiary did not categorize its CWF costs appropriately and did not remove the nonregulated portion of Category 1 investments, AAD concludes that for High Cost Program purposes, the Beneficiary inaccurately reported cost study balances for CWF and the Category 1.

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[19] The Category 1 CWF amount includes the $1.6M Category 1 portion of the interexchange route noted in Table 1.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to ensure that it based the categorization of CWF on accurate calculations.

EFFECT

AAD calculated the monetary effect for this finding by deducting $83,427 from the total CWF balance, including the associated accumulated depreciation and depreciation expense, and $95,025 from total average Category 1 CWF[20] reported by the Beneficiary on its High Cost Program filings. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$8,009
ICLS	$3,056
CAF ICC	$0
Total	**$11,065**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules and Orders. The Beneficiary may learn more information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

> Moving forward Craw-Kan and the cost consultant will work to ensure all CWF costs are appropriately allocated to the correct category. The cost consultant has updated their workpapers to ensure the nonregulated portion of Category 1 investments are removed from the cost study.

Finding #5: 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 the Beneficiary used its High Cost support only for the provision, maintenance, and upgrading of facilities and services for which High Cost Program support is intended. During a review of the general ledger for the 12-months ending December 31, 2014, AAD determined that 129 transactions totaling $8,100, were not related to the provision, maintenance, and upgrading of facilities and services for which High Cost Program support was intended. The ineligible

[20] AAD deducted $95,025 because the investments noted within Table 1 applied to the previous year and should not have been included in the cost study for the entire audit period.

transactions included expenses related to sponsorships, gifts to employees, fees associated with late payments on filing, unpaid sales tax and other miscellaneous expenses, as summarized below:

Account	Value of Transactions With Exceptions[21]
6110 – Network Support Expense	$51
6120 – General Support Expense	$3
6210 – Central Office Switching Expense	$2
6230 – Central Office Transmission Expense	$15
6530 – Network Operating Expense	$4
6610 – Marketing Expense	$3,617
6710 – Executive Expense	$363
6720 – General and Administrative Expense	$4,045
Total	**$8,100**

Thus, AAD concludes that the Beneficiary's reported balances did not only include transactions used for the provision, maintenance, and upgrading of facilities and services for which High Cost Program support in intended.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude transactions that were not used for the provision, maintenance, and upgrading of facilities and services for which the support was intended. The Beneficiary informed AAD that this issue occurred due to human error at the time of booking the transaction in its financial records.[22]

EFFECT

AAD calculated the monetary effect for this finding by subtracting the value of the 129 disallowed transactions, totaling $8,100, from the balances reported by the Beneficiary in the respective accounts in its High Cost filings. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$2,184
ICLS	$1,768
CAF ICC	$0
Total	**$3,952**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must ensure that it has an adequate system to report accurate data

[21] The values represent the Beneficiary's portion of joint expenses that are shared with another study area. In addition, for any joint expenses utilizing the Big 3 expense factor (*see* 47 C.F.R. § 69.2(e)), AAD utilized the recalculated factor as noted in Finding #2.
[22] Beneficiary response to audit exception summary, received August 23, 2019.

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

BENEFICIARY RESPONSE

Craw-Kan will continue to train its staff in recording expenses in the proper accounts, and identifing the expenses that are not related to the provision, maintenance, and upgrading of facilities and services for which High Cost Program support.

The cost consultants have put processes in place to ensure all expenses that are not related to the provision, maintenance and upgrading of facilites are services for which High Cost Program support is intented are removed from the cost study.

Finding #6: 47 C.F.R. § 32.2000(g) – Inaccurate Depreciation Calculation

CONDITION

AAD obtained and examined documentation including the Beneficiary's general ledger and depreciation schedules to determine whether the Beneficiary properly calculated and reported its depreciation expense properly for High Cost Program purposes. The Beneficiary did not accurately report depreciation expense and accumulated depreciation for the audit period for the following reasons:

a. The Beneficiary used beginning monthly balances instead of the average monthly balances to compute depreciation expense.
b. The Beneficiary made calculation errors in computing the depreciation expense for various accounts.

For the 12-month period ended December 31, 2014, depreciation expense was understated by $2,353 and the related accumulated depreciation was understated by $2,373. Thus, AAD concludes that the Beneficiary's depreciation and accumulated depreciation was not properly calculated and reported for High Cost Program purposes.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation of depreciation expense and accumulated depreciation. The Beneficiary informed AAD that this issue occurred due to accounting software that was programmed to calculate depreciation on beginning asset balances.[23]

EFFECT

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

[23] Beneficiary responses to audit exception summary, received August 23, 2019.

Support Type	Monetary Effect and Recommended Recovery
HCL	$(782)
ICLS	$(314)
CAF ICC	$0
Total	**$(1,096)**

RECOMMENDATION

The Beneficiary must implement policies and procedures to ensure it calculates and reviews and approves the calculation of depreciation expense and accumulated depreciation to demonstrate compliance with FCC Rules and Orders. The Beneficiary may learn more information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Craw-Kan has updated the depreciation calculation in its accounting software to utilize average monthly balances.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2232 (2014)	(a) This account shall include the original cost of equipment which is used to reduce the number of physical pairs otherwise required to serve a given number of subscribers by utilizing carrier systems, concentration stages or combinations of both. It shall include equipment that provides for simultaneous use of a number of interoffice channels on a single transmission path. This account shall also include equipment which is used for the amplification, modulation, regeneration, circuit patching, balancing or control of signals transmitted over interoffice communications transmission channels. This account shall include equipment which utilizes the message path to carry signaling information or which utilizes separate channels between switching offices to transmit signaling information independent of the subscribers' communication paths or transmission channels. This account shall also include the original cost of associated material used in the construction of such plant. Circuit equipment may be located in central offices, in manholes, on poles, in cabinets or huts, or at other company locations. The investment in circuit equipment shall be maintained in the following subaccounts: 2232.1 Electronic and 2232.2 Optical. (b) This subaccount 2232.1 Electronic shall include the original cost of electronic circuit equipment. (c) This subaccount 2232.2 Optical shall include the original cost of optical circuit equipment. (d) Circuit equipment that converts electronic signals to optical signals or optical signals to electronic signals shall be categorized as electronic. (e) This account excludes carrier and auxiliary equipment and patch bays which are includable in Account 2231.2, Other Radio Facilities. This account also excludes such equipment which is an integral component of a major unit which is classifiable to other accounts. (f) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to digital and analog. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.
#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. § 32.6232 (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.
#1	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

Finding	Criteria	Description
		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 longterm courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, 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;

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

Finding	Criteria	Description
#2	47 C.F.R. § 64.901(b)(3)(ii) (2014)	When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.
#2	47 C.F.R. § 32.1220 (2014)	(a) This account shall include the cost of materials and supplies held in stock and inventories of goods held for resale or lease. The investment in inventories shall be maintained in the following subaccounts: 1220.1 Material and supplies 1220.2 Property held for sale or lease (b) These subaccounts shall not include items which are related to a nonregulated activity unless that activity involves joint or common use of assets and resources in the provision of regulated and nonregulated products and services. (c) 1220.1 Material and supplies. This subaccount shall include cost of material and supplies held in stock including plant supplies, motor vehicles supplies, tools, fuel, other supplies and material and articles of the company in process of manufacture for supply stock. (Note also §32.2000(c)(2)(iii) of this subpart.) (d) Transportation charges and sales and use taxes, so far as practicable, shall be included as a part of the cost of the particular material to which they relate. Transportation and sales and use taxes which are not included as part of the cost of particular material shall be equitably apportioned among the detail accounts to which material is charged. (e) So far as practicable, cash and other discount on material shall be deducted in determining cost of the particular material to which they relate or credited to the account to which the material is charged. When such deduction is not practicable, discounts shall be equitably apportioned among the detail accounts to which material is charged. (f) Material recovered in connection with construction, maintenance or retirement of property shall be charged to this account as follows: (1) Reusable items that, when installed or in service, were retirement units shall be included in this account at the original cost, estimated if not known. (Note also §32.2000(d)(3) of this subpart.) (2) Reusable minor items that, when installed or in service, were not retirement units shall be included in this account at current prices new. (3) The cost of repairing reusable material shall be charged to the appropriate account in the Plant Specific Operations Expense accounts. (4) Scrap and nonusable material included in this account shall be carried at the estimated amount which will be received therefor. The difference between the amounts realized for scrap and nonusable material sold and the amounts at which it is carried in this account, so far as practicable, shall be adjusted in the accounts credited when the material was taken up in this account. (g) Interest paid on material bills, the payments of which are delayed, shall be charged to Account 7500, Interest and related items. (h) Inventories of material and supplies shall be taken periodically or frequently enough for reporting purposes, as appropriate, in accordance

Finding	Criteria	Description
		with generally accepted accounting principles. The adjustments to this account shall be charged or credited to Account 6512, Provisioning expense. (i) 1220.2 Property held for sale or lease. This subaccount shall include the cost of all items purchased for resale or lease. The cost shall include applicable transportation charges, sales and use taxes, and cash and other purchase discounts. Inventory shortage and overage shall be charged and credited, respectively, to Account 5280, Nonregulated operating revenue.
#2	47 C.F.R. § 32.2110 (2014)	This account shall be used by Class B companies to record the original cost of land and support assets of the type and character required of Class A companies in Accounts 2111 through 2124.
#2	47 C.F.R. § 32.3100 (2014)	(a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense—telecommunications plant in service. (Note also Account 3300, Accumulated depreciation—nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in §32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.
#2	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.
#2	47 C.F.R. § 32.6561 (2014)	This account shall include the depreciation expense of capitalized costs in Accounts 2112 through 2441, inclusive

Finding	Criteria	Description
#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.
#2	47 C.F.R. § 32.6711 (2014)	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. § 32.7300 (2014)	This account shall be used to record the results of transactions, events and circumstances affecting the company during a period and which are not operational in nature. This account shall include such items as nonoperating taxes, dividend income and interest income. Whenever practicable, the inflows and outflows associated with a transaction or event shall be matched and the result shown as a net gain or loss. This account shall include the following: (a) Dividends on investments in common and preferred stock, which is the property of the company, whether such stock is owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled. (b) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investments. (c) Interest on securities, including notes and other evidences of indebtedness, which are the property of the company, whether such securities are owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled. It shall also include interest on cash bank balances, certificates of deposits, open accounts, and other analogous items. (d) For each month the applicable amount requisite to extinguish, during the interval between the date of acquisition and date of maturity, the difference between the purchase price and the par value of securities owned or held in sinking or other funds, the income from which is includable in this account. Amounts thus credited or charged

Finding	Criteria	Description
		shall be concurrently included in the accounts in which the securities are carried. (e) Amounts charged to the telecommunications plant under construction account related to allowance for funds used during construction. (See §32.2000(c)(2)(x).) (f) Gains or losses resulting from: (1) The disposition of land or artworks; (2) The disposition of plant with traffic; (3) The disposition of nonoperating telecommunications plant not previously used in the provision of telecommunications services. (g) All other items of income and gains or losses from activities not specifically provided for elsewhere, including representative items such as: (1) Fees collected in connection with the exchange of coupon bonds for registered bonds; (2) Gains or losses realized on the sale of temporary cash investments or marketable equity securities; (3) Net unrealized losses on investments in current marketable equity securities; (4) Write-downs or write-offs of the book costs of investment in equity securities due to permanent impairment; (5) Gains or losses of nonoperating nature arising from foreign currency exchange or translation; (6) Gains or losses from the extinguishment of debt made to satisfy sinking fund requirements; (7) Amortization of goodwill; (8) Company's share of the earnings or losses of affiliated companies accounted for on the equity method; and (9) The net balance of the revenue from and the expenses (including depreciation, amortization and insurance) of property, plant, and equipment, the cost of which is includable in Account 2006, Nonoperating plant. (h) Costs that are typically given special regulatory scrutiny for ratemaking purposes. Unless specific justification to the contrary is given, such costs are presumed to be excluded from the costs of service in setting rates. (1) Lobbying includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances, or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises, or for the purpose of influencing the decisions of public officials. This also includes advertising, gifts, honoraria, and political contributions. This does not include such expenditures which are directly related to communications with and appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations;

Finding	Criteria	Description
		(2) Contributions for charitable, social or community welfare purposes; (3) Membership fees and dues in social, service and recreational or athletic clubs and organizations; (4) Penalties and fines paid on account of violations of statutes. This account shall also include penalties and fines paid on account of violations of U.S. antitrust statutes, including judgements and payments in settlement of civil and criminal suits alleging such violations; and (5) Abandoned construction projects. (i) Cash discounts on bills for material purchased shall not be included in this account.
#2	47 C.F.R. § 64.903(b) (2014)	(b) Each carrier shall ensure that the information contained in its cost allocation manual is accurate. Carriers must update their cost allocation manuals at least annually, except that changes to the cost apportionment table and to the description of time reporting procedures must be filed at the time of implementation. Annual cost allocation manual updates shall be filed on or before the last working day of each calendar year. Proposed changes in the description of time reporting procedures, the statement concerning affiliate transactions, and the cost apportionment table must be accompanied by a statement quantifying the impact of each change on regulated operations. Changes in the description of time reporting procedures and the statement concerning affiliate transactions must be quantified in $100,000 increments at the account level. Changes in cost apportionment tables must be quantified in $100,000 increments at the cost pool level. The Chief, Wireline Competition Bureau may suspend any such changes for a period not to exceed 180 days, and may thereafter allow the change to become effective or prescribe a different procedure.
#2 & #5	47 C.F.R. § 69.2(e) (2014)	Big Three Expenses are the combined expense groups comprising: Plant Specific Operations Expense, Accounts 6110, 6120, 6210, 6220, 6230, 6310 and 6410; Plant Nonspecific Operations Expenses, Accounts 6510, 6530 and 6540, and Customer Operations Expenses, Accounts 6610 and 6620.
#3	47 C.F.R. § 32.6622 (2014)	This account shall include costs incurred in providing customer number and classified listings. This includes preparing or purchasing, compiling, and disseminating those listings through directory assistance or other means.
#3	47 C.F.R. § 32.2003 (2014)	(a) This account shall include the original cost of construction projects (note also §32.2000(c)) of this part and the cost of software development projects that are not yet ready for their intended use. (b) There may be charged directly to the appropriate plant accounts the cost of any construction project which is estimated to be completed and ready for service within two months from the date on which the project was begun. There may also be charged directly to the plant accounts the cost of any construction project for which the gross additions to plant are estimated to amount to less than $100,000.

Finding	Criteria	Description
		(c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to §§43.21(e)(1) and 43.21(e)(2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7300, Nonoperating income and expense. (d) When any telecommunications plant, the cost of which has been included in this account, is completed ready for service, the cost thereof shall be credited to this account and charged to the appropriate telecommunications plant or other accounts.
#4	47 C.F.R. § 36.151(c) (2014)	(c) In the separation of the cost of cable and wire facilities among the operations, the first step is the assignment of the facilities to certain categories. The basic method of making this assignment is the identification of the facilities assignable to each category and the determination of the cost of the facilities so identified. Because of variations among companies in the character of the facilities and operating conditions, and in the accounting and engineering records maintained, the detailed methods followed, of necessity, will vary among the companies. The general principles to be followed, however, will be the same for all companies.
#5	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.
#5	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 Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act.
#5	*Connect America Fund, et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, 33 FCC Rcd 2990, 2994, para. 10 (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

Finding	Criteria	Description
		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.
#6	47 C.F.R. § 32.2000(g) (2014)	(g) 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. (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

Finding	Criteria	Description
		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. (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.

Attachment D

HC2019BE019

Farmers Mutual Telephone Company of Stanton, Iowa

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

USAC Audit No. HC 2019BE019

TABLE OF CONTENTS

MOSSADAMS

EXECUTIVE SUMMARY

June 1, 2020

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

Dear Teleshia Delmar:

This report represents the results of Moss Adams LLP's (we, us, our, and Moss Adams) work conducted to address the performance audit obligations relative to Farmers Mutual Telephone Company of Stanton, Iowa (Beneficiary), study area code 351174 for disbursements of $1,119,249 made from the federal Universal Service High Cost Program (HCP) (Disbursements) during the year ended December 31, 2018.

We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form our conclusions. We believe the evidence we have obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our performance audit does not provide a legal determination of the Beneficiary's compliance with specified requirements.

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

(FCC) Orders governing federal Universal Service Support for the HCP relative to the disbursements (collectively, the Rules).

Based on the test work performed, our audit disclosed four detailed audit findings discussed in the Audit Results section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period. Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations.

This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

Moss Adams LLP

Overland Park, Kansas
August 3, 2020

AUDIT RESULTS

Audit Results	Monetary Effect & Recommended Recovery
Finding #1: FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purposes: The 2016 cost study included expenses that were not related to provisioning, maintaining, or upgrading telecommunications service.	$11,175
Finding #2: 47 C.F.R § 64.901(a), (b) – Inaccurate Part 64 Adjustments for Rate Base and Expenses: The Beneficiary made errors in its calculation to remove the nonregulated portion of its central office switching accumulated depreciation and central office switching depreciation expense.	$9,660
Finding #3: 47 C.F.R § 32.6534 (b) and 47 C.F.R § 32.2000 (c)(2)(ii) – Inaccurate Expense Clearings: The Beneficiary did not clear plant operations administration expenses to construction accounts.	$9,583
Finding #4: 47 C.F.R § 54.1305(i) – Inaccurate Loop Counts: The Beneficiary included average loop counts instead of loop counts as of December 31, 2016, which understated loops by 20 in its 2017-1 HCL filing.	$9,235
Total	**$39,653**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for the High Cost Program support amount noted in the chart below. Note: USAC's High Cost Program Management does not net findings across SACs and High Cost does not pay additional support in the event of a finding of underpayment. 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)	USAC Recovery Action (A) + (B) = (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$5,653	$5,522	$11,175	No Difference
Finding #2	$9,713	$($53)	$9,660	No Difference
Finding #3	$6,364	$3,219	$9,583	No Difference
Finding #4	$9,235	$0	$9,235	No Difference
Mechanism **Total**	$30,965	$8,688	**$39,653**	

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides telecommunications services, including local service and Internet to residential and business customers residing in areas of southwestern Iowa. The company also provides non-regulated services such as cable television.

PROGRAM

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

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

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

- Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support replaced Local Switching Support is available to ILECs to assist them in recovering a portion of the revenue requirement related to switching investment that is not covered by the access recovery charge (ARC) billed to the end user or certain other charges billed to other carriers. This revenue requirement was frozen based on forecasted switching investment filed by eligible carriers in 2011 and is being reduced by 5% per year. CAF ICC disbursements began July 1, 2012.

- Interstate Common Line Support (ICLS): ICLS is available to ILECs and is designed to help its recipients cover common line revenue requirement while ensuring the subscriber line charge (SLC) remains affordable to customers. The common line revenue requirement is related to facilities that connect end users to the carrier's switching equipment. With the transition to Connect America Fund Broadband Loop Support (CAF BLS), 2018 was the last year for ICLS true up disbursements.

OBJECTIVE, SCOPE, AND PROCEDURES

OBJECTIVE

The objective of our performance audit was to evaluate the Beneficiary's compliance with 47 C.F.R. Part 54 Subparts C, D, K, and M; Part 36 Subpart F; Part 64 Subpart I; Part 69 Subparts D, E, and F; and Part 32 Subpart B, as well as FCC Orders governing federal Universal Service Support for the HCP relative to the disbursements for the 12-month period ended December 31, 2018.

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

SCOPE

In the following chart, we summarize 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)	12/31/2016	12/31/2018	$184,218
High Cost Loop (HCL)	12/31/2016	12/31/2018	$934,377
Interstate Common Line Support (ICLS)	12/31/2016	12/31/2018	$654
Total			**$1,119,249**

AUDIT METHODOLOGY

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

Reconciliation

We reconciled the December 31, 2016 and 2015, trial balances to the separations and Part 64 study inputs and then to the applicable HCP Forms, obtained explanations for any variances, and evaluated the explanations for reasonableness.

Rate Base and Investment High Cost Program Support Amount

We utilized an attribute sampling methodology[1] to select asset samples from central office equipment (COE) and cable and wire facilities (CWF) accounts. We made asset selections from continuing property record (CPR) detail. We determined that the balances for the selected assets were properly supported by underlying documentation such as work order detail, third-party vendor invoices, materials used sheets, and time and payroll documentation for labor and related costs.

We agreed the amounts charged to work order detail and verified the proper general ledger coding under Part 32. In addition, we verified the physical existence of select assets.

Tax Filing Status

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

Expenses

We utilized an attribute sampling methodology to select expense samples from operating expense accounts that impact ICLS and HCL. We made payroll sample selections from a listing of employees. We agreed the amounts from the employee paystubs to supporting documentation such as time sheets, labor distribution reports, and approved pay rates, and verified the costs were coded to the proper Part 32 account. We reviewed benefits and clearings to ensure the Beneficiary's compliance with Part 32.

We made other disbursement selections from accounts payable transactions and agreed amounts to supporting documentation, reviewing for proper coding under Part 32. We selected a sample of manual journal entries to ensure reclassifications between expense accounts were appropriate and reasonable. We utilized MindBridge, a software program that uses data science and machine learning techniques to uncover outliers and anomalous transactions for 100% of the transactions within general ledger data, to identify keywords within the transaction descriptions to identify transaction for potential disallowed expenses and reviewed supporting documentation for a selection of transactions to determine if expenses were properly included or properly excluded from the cost study.

[1] Attribute sampling is a methodology where the selections made from a representative population are tested to determine if they contain predefined qualified characteristics (attributes).

Affiliate Transactions

We performed procedures to assess the reasonableness of affiliate transactions that occurred during the period under audit. The affiliate transactions involved the transfer of assets or the provision of service between the Beneficiary and its wholly owned subsidiaries. We noted the Beneficiary wholly owns Villisca Farmers Telephone Company, Inc. and Farmers Mutual Town and Country, Inc. We selected a sample of various transactions between the Beneficiary and its affiliates to determine whether the Beneficiary had recorded the transactions in accordance with 47 C.F.R. Section 32.27.

Revenues and Subscriber Listings

We tested general ledger accounts, subscriber bills, and other documentation to verify the accuracy and existence of revenues. We utilized an attribute sampling methodology to select revenue samples from subscriber listings. We tested subscriber bills with procedures to ensure the lines were properly classified as residential, single-line business, or multi-line business. In addition, we reconciled the ICLS related revenues reported to the National Exchange Carrier Association (NECA) to the general ledger and billing support, and we reconciled switched related revenues reported to USAC as part of the CAF ICC filing to general ledger and billing support. We obtained subscriber listings and billing records to determine the lines or loops reported in the HCP filings agreed to supporting documentation. We reviewed the subscriber listings for duplicate lines, invalid data, and nonrevenue producing lines.

Part 64 Allocations

We (1) reviewed the Beneficiary’s cost apportionment methodology to assess the reasonableness of the allocation methods and corresponding data inputs used to calculate the factors, (2) recalculated the material factors, and (3) recalculated the material amounts allocated. We also evaluated the reasonableness of the assignment between regulated, nonregulated, and common costs and the apportionment factors as compared to the regulated and nonregulated activities performed by the Beneficiary.

Central Office Equipment (COE) and Cable and Wire Facilities (CWF) Categorization

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

Revenue Requirement

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

DETAILED AUDIT FINDINGS

Our performance audit resulted in the following detailed audit findings and recommendations with respect to the Beneficiary's compliance with the Rules, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54, Subparts C, D, K, and M, Part 36, Subpart F; Part 64, Subpart I; Part 69, Subparts D, E, and F; and Part 32, Subpart B, as well as the Federal Communications Commission's (FCC) Orders governing federal Universal Service Support applicable to the disbursements made from the HCP during the year ended December 31, 2018.

Finding #1: FCC 15-133 Public Notice and FCC 18-29 Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking[2] – Support Not Used for Intended Purposes

CONDITION

We obtained general ledger details of all expense accounts for the year ended December 31, 2016 to determine whether the Beneficiary only reported in its HCP filings, expenses used for the provision, maintenance, or upgrading facilities and services for which the support was intended. We then extracted expense details using MindBridge software to identify terms included in the general ledger entries that were specifically emphasized in FCC 15-133. From our search, we identified expenses related to holiday and retirement gifts, sponsorships of conference and community events, membership fees and dues, donations and scholarships totaling $21,101 that were included as regulated expenses in the Beneficiary's HCP filings. These expenses are deemed ineligible for cost recovery and should not have been included in the HCP filings as they are not for the provision, maintenance, or upgrading of facilities or services for which the support is intended.

CAUSE

The process to review, approve, and prepare the 2016 cost study did not identify and adjust for the expenses that should be excluded from regulated expenses.

[2] 47 U.S.C. § 254(e) and 47 C.F.R § 54.7(a)

EFFECT

The exception[3] identified above resulted in an overstatement of regulated expenses of $21,101, which impacted ICLS and HCL disbursements. We excluded the expenses above from the HCP filings to calculate the impact on ICLS and HCL disbursements. As summarized below, we estimate the monetary impact of this finding, relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment of $11,175:

Support Type	Monetary Effect & Recommended Recovery
HCL	$5,653
ICLS	$5,522
Total	$11,175

RECOMMENDATION

We recommend that USAC management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary establish a process to identify all expenses that are ineligible for cost recovery under the HCP and remove these expenses from its HCP filings. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Starting with the 2017 cost study, Farmers Mutual Telephone Company (FMTC) implemented procedures to identify expenses not related to provisioning, maintaining or upgrading telecommunications service according the FCC's Report and Order FCC 18-29 effective May 31st, 2018. The guidance clarified what business expenses should not be included in Federal Universal Service calculations. The benefit of this clarification was not available for the data years examined in this audit.

[3] In the report, Moss Adams 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.

Finding #2: 47 C.F.R § 64.901(a), (b) – Inaccurate Part 64 Adjustments for Rate Base and Expenses

CONDITION

We obtained from the Beneficiary worksheets that it used to calculate the nonregulated switching investment and associated accumulated depreciation and depreciation expense for its 2016 Part 64 adjustment to remove the nonregulated portion of its switch from regulated cost study balances. The Beneficiary utilized an indirect cost-causative approach for removing the nonregulated portion of its central office switching investment based on customers of its affiliate that are using the switch. The Beneficiary also utilized a depreciation reserve ratio and depreciation expense ratio applied to the identified nonregulated central office switching investment to calculate the accumulated depreciation balance and depreciation expense to remove from the regulated cost study. The Beneficiary calculated the accumulated depreciation ratio by dividing the general ledger balance of accumulated depreciation by the general ledger balance of central office switching investment. The Beneficiary calculated the depreciation expense ratio by dividing central office switching depreciation expense by the central office switching investment balance. We recalculated the Part 64 adjustment and found that the Beneficiary's calculation contained mathematical errors. Specifically, the Beneficiary applied the aforementioned ratios to an incorrect nonregulated central office switching investment balance. The error in the Beneficiary's calculation resulted in central office switching accumulated depreciation being understated by $38,527 and central office switching depreciation expense being overstated by $28,379.

CAUSE

The process to prepare, review, and approve the 2016 cost study did not identify and correct the error in the adjustment to remove the accumulated depreciation and depreciation expense associated with the nonregulated switching investment.

EFFECT

The exception identified above resulted in an overstatement of the year-end and average net switching investment and overstatement of switching depreciation expense which impacted HCL and ICLS disbursements. To calculate the impact to HCL and ICLS disbursements for the finding noted above, we adjusted the accumulated depreciation and depreciation expense balances included in the Beneficiary's cost study balances reported in its HCP filings.

As summarized below, we estimate the monetary impact of this finding, relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment of $9,660:

Support Type	Monetary Effect & Recommended Recovery
HCL	$9,713
ICLS	($53)
Total	**$9,660**

RECOMMENDATION

We recommend that USAC management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary establish a process to review its Part 64 adjustment calculations to ensure the accuracy of the inputs used in the calculations. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

For several years, switching platforms have been evolving. In FMTC's situation, the switching platform has collapsed into a single switch performing all switch functionality. FMTC will revise the switch allocation for the switch reserve and depreciation expense to match to the switch asset allocation.

Finding #3: 47 C.F.R § 32.6534 (b) and 47 C.F.R § 32.2000 (c)(2)(ii) – Inaccurate Expense Clearings

CONDITION

We obtained one month (April 2016) of expense clearings detail from the Beneficiary's 2016 general ledger and the Beneficiary's 2016 employee payroll labor distribution report to 1) assess whether or not expenses were being cleared as required by Part 32 and 2) confirm the mechanical accuracy of expense clearings. The Beneficiary did not allocate Plant Operations Administration expense from account 6534 to plant under construction. Specifically, the Beneficiary recorded $84,129 to expense account 6534 and should have allocated approximately $16,441 to plant under construction based on construction labor hours. This clearings error resulted in expenses being overstated and rate base being understated by $16,441.

CAUSE

The process to prepare, review, and approve the 2016 cost study did not identify and correct the error in the Beneficiary's expense clearings process.

EFFECT

The exception identified above resulted in an understatement of rate base and overstatement of expenses included in the Beneficiary's 2016 cost study and HCP filings. We obtained the Beneficiary's labor distribution for 2016 and recalculated the Plant Operations Administration expense clearing based on a ratio of construction labor hours to total plant personnel hours to adjust expenses and rate base in the HCP filings. We decreased Plant Operations Administration expense and increased rate base accounts by $16,441 to determine the monetary effect of the finding. As summarized below, we estimate the monetary impact of this finding, relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment totaling $9,583:

Support Type	Monetary Effect & Recommended Recovery
ICLS	$3,219
HCL	$6,364
Total	**$9,583**

RECOMMENDATION

We recommend that USAC management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary review its clearings processes to ensure that expenses are cleared in accordance with FCC guidelines. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

FMTC will implement a process to clear the Plant Operations Administration expense to the construction accounts.

Finding #4: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Counts

CONDITION

We obtained and examined the subscriber listing that the Beneficiary provided to substantiate the loop count it reported for High Cost Program purposes. The Beneficiary included average loop counts instead of loop counts as of December 31, 2016, and as a result, it understated loops by 20 in its 2017-1 HCL annual filing submitted July 31, 2017.

CAUSE

The Beneficiary did not have an effective system to collect, report, or monitor data reported to NECA for its HCL filing.

EFFECT

The exception identified above resulted in an understatement of working loops included in the Beneficiary's 2017-1 HCL filing. We calculated the impact to HCL disbursements by revising the number of loops reported in the Beneficiary's HCP filings. There was no impact to ICLS disbursements. As summarized below, we estimate the monetary impact of this finding, relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment of $9,235:

Support Type	Monetary Effect & Recommended Recovery
HCL	$9,235
Total	**$9,235**

RECOMMENDATION

We recommend that USAC management seek recovery of the amounts identified in the Effect section above.

We recommend that the Beneficiary establish a process to review its data reported to NECA or USAC to ensure the accuracy of data used in its HCP filings. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

FMTC will implement a process to ensure the Official Company loops are included in the High Cost Loop calculation.

CRITERIA

Finding	Criteria	Description
Finding #1	FCC 15-133 Public Notice and FCC 18-29 Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking	FCC 15-133 - The Commission reminds all eligible telecommunications carriers (ETCs) that receive support from the Universal Service Fund's high-cost mechanisms (whether legacy high-cost program support or Connect America Fund support) of their obligations to use such support only for its intended purposes of maintaining and extending communications service to rural, high-cost areas of the nation. Expenditure of legacy high-cost or Connect America support for any other purpose is misuse and may subject the recipient to recovery of funding, suspension of funding, enforcement action by the Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act. FCC 18-29 - 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. 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. 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. Nothing we do in this Report and Order is intended to undermine our precedent.
Finding #2	47 C.F.R. § 64.901 (a),(b) (2016)	(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose.

		(b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. (2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.

		(4) The allocation of central office equipment and outside plant investment costs between regulated and nonregulated activities shall be based upon the relative regulated and nonregulated usage of the investment during the calendar year when nonregulated usage is greatest in comparison to regulated usage during the three calendar years beginning with the calendar year during which the investment usage forecast is filed.
Finding #3	47 C.F.R. § 32.6534(b) (2016)	47 C.F.R. § 32.6534(b) - Credits shall be made to this account for amounts transferred to construction accounts. These amounts shall be computed on the basis of direct labor hours (see § 32.2000(c)(2)(ii) of subpart c).
Finding #3	47 C.F.R. § 32.2000(c)(2)(ii) (2016)	47 C.F.R. § 32.2000(c)(2)(ii) – (c) Cost of construction. (2) Direct and indirect costs shall include, but not be limited to: (ii) "Engineering" includes the portion of the wages and expenses of engineers, draftsmen, inspectors, and their direct supervision applicable to construction work. It includes expenses directly related to an employee's wages, such as worker's compensation insurance, payroll taxes, benefits and other similar items of expense.
Finding #4	47 C.F.R. § 54.1305(i) (2016)	47 C.F.R. § 54.1305 Submission of information to the National Exchange Carrier Association (NECA): (i) 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.

Attachment E

HC2017LR023

Available For Public Use

Universal Service Administrative Co.

Available For Public Use

Westgate Communications LLC

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

USAC Audit No. HC2017LR023

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EXECUTIVE SUMMARY

March 20, 2020

Richard Weaver
Westgate Communications LLC
246 West Manson Road Unit 1
Chelan, WA 98816

Dear Mr. Weaver:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Westgate Communications LLC (Beneficiary), study area code 520580 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 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
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) and 54.903(a)(1) – Inaccurate Loops and Access Line Counts The Beneficiary 1) did not provide any supporting documentation for two subscribers noted within the billing documentation that it provided, 2) failed to include one subscriber in the Beneficiary's reported line counts, 3) include in its subscriber listing two subscribers that fell outside the designated service area, and 4) was unable to provide adequate documentation to support two subscribers.	$11,698
Finding #2: 47 C.F.R. § 54.320(b) - Inadequate Documentation - Assets, Expenses & Affiliates: The Beneficiary was unable to provide adequate documentation for 7 assets samples, 7 expense samples, and 1 affiliate transaction.	$1,853
Finding 3: 47 C.F.R. § 54.320(b) - Inadequate Documentation - Allocation Factors: The Beneficiary was unable to provide adequate supporting documentation to support the allocation factors for nonregulated cost study adjustments.	To be determined[2]
Total	**$13,551**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery of the High Cost Program support from the Beneficiary for SAC 520580 in the amount noted in the table below.

Regarding Finding #3, USAC Management requires the Beneficiary to be placed on a corrective action plan (C.A.P.) to address the Inadequate Documentation-Allocation Factors. As part of the C.A.P., the Beneficiary must report to High Cost Management, within 60 days of the date of the Recovery Letter to be issued by High Cost Program, how it plans to improve its documentation processes.

In the absence of valid supporting documentation for the transaction in question, at High Cost Management's request, AAD will provide to Management the revised monetary effect calculations treating the relevant transactions as 100% non-regulated to account for the lack of documentation related to the cost allocations. High Cost Program Management will notify the Beneficiary of any Monetary Effect and or Recovery amount.

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[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] Note: as discussed below in the USAC Management response section, the Beneficiary will be required to submit additional documentation relevant to Finding #3. High Cost Management will, separate from this audit, create a Corrective Action Plan relevant to Finding #3.

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)[3]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$5,530	$6,228	($60)	$11,698	
Finding #2	$4,348	($2,495)	$0	$1,853	
Mechanism Total	**$9,878**	**$3,733**	**($60)**	**$13,551**	

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	$165,084
High Cost Loop (HCL)	2014	2016	$97,778
Interstate Common Line Support (ICLS)	2014	2016	$82,188
Total			**$345,050**

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Washington state. The Beneficiary is an affiliate of WeavNet.

PROCEDURES

AAD performed the following procedures:

A. High Cost Program Support Amount

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

[3] *Id.*

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 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 and subscriber bills that supported the number of loops and access line counts as of December 31, 2014 to determine whether the Beneficiary reported accurate loops and access line counts for High Cost Loop (HCL) and Interstate Common Line Support (ICLS) purposes. AAD determined that the Beneficiary's subscriber listing improperly included four subscribers and improperly excluded one subscriber. Specifically, the Beneficiary did not provide any documentation for two subscribers and did not provide adequate documentation for two subscribers included in the Beneficiary's subscriber listing. Moreover, the Beneficiary under-reported its line counts by one subscriber because the subscriber listing was not accurately updated.

In addition, AAD mapped each subscriber's service address on the Beneficiary's subscriber listing to identify the physical location of each subscriber to determine whether the subscriber was located within the Beneficiary's designated study area. AAD noted that two subscribers were located outside of the Beneficiary's service area. Of the two subscribers who were located outside of the Beneficiary's designated service area, AAD notes that one subscriber was also included in the over-reporting of line counts as described above.

Thus, as summarized in the table below, the total loops and total category 1.3 loops for High Cost Loop support were over-reported by four subscribers, and the access lines for Interstate Common Line Support were over-reported by four subscribers.

Summary of Loop and Line Count Exceptions[4]	
Inadequate documentation – Bills	2
Lack of documentation – No bill documentation provided	2
Subscriber not included on the subscriber listing	(1)
Subscribers outside of the study area	1[5]
Total Loop and Line Count Exceptions	**4**

Because the Beneficiary's supporting documentation did not agree to what it reported and because AAD determined that there were subscribers who were located outside of the Beneficiary's designated study area,

[4] 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.

[5] While there were two subscribers that were related to the subscribers outside of the study area exception, AAD noted one exception to prevent double-counting the same subscriber who was also counted for the lack of documentation exception.

AAD concludes that the Beneficiary reported inaccurate access line and working loop 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 it did not maintain appropriate documentation detailing 1) when it added or deleted specific customers, or 2) the relevant type of customer (whether residential, single-line business, or multi-line business).[6] The Beneficiary also informed AAD that it did not reconcile their monthly subscriber billing to their monthly subscriber customer list.[7]

EFFECT

AAD calculated the monetary effect for this Finding by deducting the four inaccurate loops and line counts, as well as the corresponding 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	$5,530
ICLS	$6,228
CAF ICC	($60)
Total	**$11,698**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must ensure that it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules 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

The Beneficiary will evaluate their procedures related to subscriber additions and deletions, including properly identifying the type of customer (residential, single line business, multiline business), review its monthly billing to determine all customers are accurately billed the correct rates and SLC charges, and will reconcile their monthly customer billing to their subscriber listing.

The Beneficiary (Company) disagrees with the finding pertaining to two customers being outside the Company's study area. The customers that USAC has identified as being outside of the WeavTel study area are located within WeavTel's Manson, Washington central office, which by extension is part of the study area as described in the Company's Washington WN U-2 Tariff (page 47) that is filed with the Washington Utilities and Transportation Commission. One of the customer lines is a WeavTel company official line and the other is

[6] Beneficiary response to the Draft Audit Findings received March 20, 2020.
[7] Beneficiary response to the Draft Audit Findings received March 20, 2020.

a business line of the Company's affiliate, WeavNet. Both of these telephone lines obtain dial tone from the WeavTel switch and have an assigned NXX code, "699", that is the Stehekin exchange prefix. Please note these are not FX (foreign exchange) lines that have dial tone from the incumbent ILEC that serves Manson. WeavTel's network routes all calls using its earth station equipment to Manson to be switched. Thus all loops in the study area terminate at the Manson CO. Any call being routed outside the WeavTel study area is transported to a meet point with connecting carriers just outside the Manson CO. In this instance, the lines in question originate and terminate in the WeavTel Manson CO but the local calling area is the Stehekin exchange. It is not uncommon for ILECs to have a central office outside the Company's study area, in which case local traffic is aggregated and transported to the remotely located CO. In addition, the FCC Part 36 Glossary defines a working loop as a "revenue producing pair of wires, or its equivalent, between a customer's station and the central office from which the station is served." In this instance, both lines in question meet the criteria of a working loop as defined in Part 36. For the reasons listed above, WeavTel believes these two lines in question are appropriately included in the Company's line and loop counts.

AAD RESPONSE

The Beneficiary stated in its response that "[t]he customers that USAC has identified as being outside of the WeavTel study area are located within WeavTel's Manson, Washington central office, which by extension is part of the study area as described in the Company's Washington WN U-2 Tariff (page 47) that is filed with the Washington Utilities and Transportation Commission." Further, the Beneficiary stated in its response that "[it] believes these two lines in question are appropriately included in the Company's line and loop counts." AAD disagrees with the Beneficiary's statements. Per 47 C.F.R. § 54.201(d), common carriers designated as an eligible telecommunications carrier under this section shall be eligible to receive universal service support in accordance with section 254 of the Act throughout the service area for which the designation is received.[8] For working loops and access lines to be eligible to receive universal service support and included in line counts reported in the Beneficiary's High Cost filings, the working loops and access lines must be located within the Beneficiary's the service area. Per 47 C.F.R. § 54.207(a), service area is a geographic area established by a state commission for the purpose of determining universal service obligations and support mechanisms; further, a service area defines the overall area for which the carrier shall receive support from federal universal service support mechanisms.[9] The Washington State Utility Commission designated the Beneficiary as an ETC for the White River exchange in Stehekin, Washington only.[10] While it may be common for ILECs to have a central office outside the Beneficiary's study area and these lines meet the definition of working loops, the customers' stations for the two lines in question were not located within the Beneficiary's service area. Per section 214(e)(1) of the Act[11] and 47 C.F.R. § 54.201(d) of the FCC's rules, because these lines do not exist within the Beneficiary's study area as designated by the Washington Utilities and Transportation Commission, these lines are ineligible to receive High Cost support and should not have been included in High Cost Program filings. For these reasons, AAD's position on this Finding remains unchanged.

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[8] *See* 47 C.F.R. § 54.201(d).

[9] *See* 47 C.F.R. § 54.207(a).

[10] *See In the Matter of the Request of Westgate Communications LLC d/b/a WeavTel for Designation as an Eligible Telecommunications Carrier,* Order Granting Request for Designation as an Eligible Telecommunications Carrier, Docket No. UT-UT053009 (2002).

[11] *See* 47 U.S. Code § 214(e)(1).

AAD notes that the Beneficiary began receiving Alternative Connect America Cost Model II (A-CAM II) as of August 2019. AAD modifies its original recommendation to include the following statement, "Note: as of August 2019, the Beneficiary began receiving A-CAM II support in addition to HCL, CAF ICC, and CAF Broadband Loop Support (CAF BLS)."

Finding #2: 47 C.F.R. § 54.320(b) – Inadequate Documentation: Assets, Affiliates and Expenses

CONDITION

AAD obtained and examined documentation, including a sample of 36 asset transactions, 37 affiliate transactions, and 22 expense transactions, totaling $362,458, 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:

Exceptions Noted	Number of Exceptions	Type	Account[12]	Value of Sample With Exception	Unsupported Portion of Sample With Exception
Missing Support for Overhead Allocation Calculation	1	Asset	Cable & Wire Facilities (2410)	$2,103	$1,354
Missing Invoices and Support for Calculation	3	Asset	Cable & Wire Facilities (2410)	$175,060	$50,407
Missing Invoices	2	Asset	Central Office Transmission (2230)	$1,890	$1,890
Missing Support for Calculation	2	Asset	Central Office Transmission (2230)	$12,319	$12,319
Missing Support for Calculation	1	Expense	Land & Building Expense (6121)	$6,246	$6,246
Missing Invoices and Support for Calculation	1	Expense	Land & Building Expense (6121)	$1,846	$1,846
Missing Invoices and Support for Calculation	2	Expense	Central Office Transmission Expense (6230)	$7,863	$7,863
Missing Invoices and Support for Calculation	1	Expense	Cable & Wire Facilities Expense (6410)	$500	$500

[12] *See* 47 C.F.R. §§ 32.2230 (2014), 32.2410 (2014), 32.6121 (2014), 32.6230 (2014), 32.6410 (2014), 32.6711 (2014), 32.6720 (2014), and 32.7500 (2014).

Missing Invoices and Support for Calculation	1	Expense	Executive Expense (6711)	$5,500	$5,500
Missing Invoices and Support for Calculation	2	Expense	General Admin. Expense (6720)	$1,330	$1,330
Missing Underlying Loan Agreement	1	Affiliate	Interest and Related Items (7500)	$454	$454
Missing Support for Calculation	1	Affiliate	General Admin. Expense (6720)	$105	$105
			Total	**$215,216**	**$89,814**

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its asset, affiliate, and expense transactions in the proper amount and to the proper general ledger account. Because the Beneficiary did not provide adequate documentation to substantiate its asset, affiliate, and expense transactions, AAD concludes that the Beneficiary did not properly report 18 transactions in the proper amount and to the proper general ledger account; and thus, AAD concluded that the Beneficiary reported inaccurate cost study balances for High Cost Program purposes.

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of records to demonstrate that it recorded its asset, affiliate, and expense transactions in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that they did not retain adequate documentation in order to support the requirements specified in the FCC's Part 54 Rules. [13] The Beneficiary further informed AAD that some of the assets sampled included the time period when the Beneficiary was formed and record retention, as well as accounting practices, has improved since that time.[14]

EFFECT

AAD calculated the monetary effect for this Finding by deducting the unsupported portions of the eight asset, two affiliate and eight expense transactions from the total amount reported by the Beneficiary in its respective and related accounts on the High Cost Program filings. The results are summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$5,178
ICLS	($2,567)
CAF ICC	$0
Total	**$2,611**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement policies and procedures to ensure it retains

[13] Beneficiary response to the Draft Audit Findings received March 20, 2020.
[14] Beneficiary response to the Draft Audit Findings received March 20, 2020.

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

The Beneficiary will continue to improve and refine its recording keeping, Part 32 accounting capabilities and document retention practices in future years. The Company will also continue to use its external auditors and consultants to assist with improving recordkeeping, accounting practices, and responding to questions. However, the Beneficiary also disagrees with several of the findings that have been noted and submitted additional documentation to support these costs.

AAD RESPONSE

The Beneficiary states in its response that it "disagree[s] with several of the findings that have been noted and submitted additional documentation to support these costs," however, the Beneficiary did not specify which portions of the Finding that they are in disagreement with. AAD took into consideration all additional documentation provided and updated the exceptions as noted below:

Exceptions Noted	Number of Exceptions	Type	Account	Value of Sample With Exception	Unsupported Portion of Sample With Exception	Resolution of Additional Documentation
Missing Support for Overhead Allocation Calculation	1	Asset	Cable & Wire Facilities (2410)	$2,103	$1,354	Additional documentation provided (i.e. an invoice) to support the material cost, however no documentation was received to support the calculation of overhead cost; therefore, the exception remains.[15]
Missing Invoices and Support for Calculation	3	Asset	Cable & Wire Facilities (2410)	$175,060	$50,407	Additional documentation provided facilitated the calculation of the depreciation expense for the monetary effect; however, the exception remains.[16]
Missing Invoices	2	Asset	Central Office Transmission (2230)	$1,890	$1,890	Additional documentation provided facilitated the calculation of the depreciation expense for

[15] Beneficiary provided documentation on April 1, 2020.
[16] Beneficiary provided documentation on April 1, 2020.

						the monetary effect; however, the exception remains. [17]
Missing Support for Calculation	2	Asset	Central Office Transmission (2230)	$12,319	$11,043	Additional documentation provided (i.e. invoice) to support the material cost; therefore, this portion ($1,276) of the exception was removed.[18]
Missing Support for Calculation	1	Expense	Land & Building Expense (6121)	$6,246	$6,246	Additional documentation provided was insufficient as it did not explain how the expense was calculated; therefore, the exception remains.[19]
Missing Invoices and Support for Calculation	1	Expense	Land & Building Expense (6121)	$1,846	$1,846	Additional documentation provided displayed transactions charged to the account did not appear to be appropriate; therefore, this exception will remain.[20]
Missing Invoices and Support for Calculation	1	Expense	Central Office Switching Expense (6210)	$0	$334	Additional documentation provided displayed transactions charged to the account did not appear to be appropriate; therefore, this exception was added.[21]
Missing Invoices and Support for Calculation	2	Expense	Central Office Transmission Expense (6230)	$7,863	$5,470	Additional documentation provided displayed transactions charged to the account did not appear to be appropriate; therefore, this portion ($5,470) of the exception amount will remain. Additional documentation provided included general

[17] Beneficiary provided documentation on April 1, 2020.
[18] Beneficiary provided documentation on April 1, 2020.
[19] Beneficiary provided documentation on February 28, 2020.
[20] Beneficiary provided documentation on February 28, 2020.
[21] Beneficiary provided documentation on February 28, 2020.

						ledger transaction details to support the calculation of the expense value; thus, this portion ($2,393) of the exception was removed.[22]
Missing Invoices and Support for Calculation	1	Expense	Cable & Wire Facilities Expense (6410)	$0	$577	Additional documentation provided displayed transactions charged to the account did not appear to be appropriate; therefore, this exception was added.[23]
Missing Invoices and Support for Calculation	1	Expense	Cable & Wire Facilities Expense (6410)	$500	$500	Additional documentation provided had invoice dates that did not agree to the associated time sheets dates and did not provide a business purpose; therefore, the exception remains.[24]
Missing Invoices and Support for Calculation	1	Expense	Executive Expense (6711)	$5,500	$0	Additional explanations pertained to the nature and determination of the executive labor amount; thus, the exception was removed.[25]
Missing Invoices and Support for Calculation	1	Expense	Executive Expense (6711)	$0	$599	Additional documentation provided displayed transactions charged to the account did not appear to be appropriate; therefore, this exception was added.[26]
Missing Invoices and Support for Calculation	2	Expense	General Admin. Expense (6720)	$1,330	$0	Additional documentation provided (i.e. an invoice) was supported by timesheets; therefore, the exception was removed.

[22] Beneficiary provided documentation on April 1, 2020.
[23] Beneficiary provided documentation on February 28, 2020.
[24] Beneficiary provided documentation on February 28, 2020.
[25] Beneficiary provided documentation on April 1, 2020.
[26] Beneficiary provided documentation on February 28, 2020.

Missing Underlying Loan Agreement	1	Affiliate	Interest and Related Items (7500)	$454	$454	No additional documentation was provided.
Missing Support for Calculation	1	Affiliate	General Admin. Expense (6720)	$105	$0	Additional documentation provided (i.e. an invoice) was supported by timesheets; therefore, the exception was removed.[27]
			Total	**$215,216**	**$80,720**	

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its asset, affiliate, and expense transactions in the proper amount and to the proper general ledger account. Because the Beneficiary did not provide additional adequate documentation to substantiate its asset, affiliate, and expense transactions, AAD concludes that the 15 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.

AAD updated the calculation for the monetary effect for this Finding by deducting the unsupported portions of the seven asset, one affiliate and seven expense transactions from the total amount reported by the Beneficiary in its respective and related accounts on the High Cost Program filings. AAD updated the results as summarized below:

Support Type	Monetary Effect and Recommended Recovery
HCL	$4,348
ICLS	($2,495)
CAF ICC	$0
Total	**$1,853**

AAD notes that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statements. "AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the AAD Response section." "Note: as of August 2019, the Beneficiary began receiving A-CAM II support in addition to HCL, CAF ICC, and CAF Broadband Loop Support (CAF BLS). While the Beneficiary is now receiving A-CAM II, HCL, CAF ICC and CAF BLS 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."

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

CONDITION

AAD obtained and examined the Beneficiary's documentation, including the regulated and non-regulated allocation factors, square footage information, and a description of the Beneficiary's allocation process, to determine whether the Beneficiary's cost study adjustments were accurately calculated for High Cost

[27] Beneficiary provided documentation on April 1, 2020.

Program purposes for the year ending December 31, 2014. Pursuant to section 64.901(b)(3)(ii) of the FCC rules, 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 used a combination of five different allocation factors to calculate its cost study adjustments.[28] The Beneficiary informed AAD that it used regulated and non-regulated labor percentages as the basis for these five allocation factors. While the Beneficiary was able to provide some documentation, the Beneficiary was unable to provide the underlying documentation (i.e. time study reports, labor distribution reports, timesheets, etc.) to support the regulated and non-regulated labor percentages that it used in the calculation of the five allocation factors. The Beneficiary informed AAD that no additional documentation was available to support the labor percentages used.[29] In the table below, USAC summarizes the allocation factors that the Beneficiary used in the cost study adjustments reported in its High Cost Program filings:

Table 1

Account[30]	Description	Beneficiary Allocation Factor(s) Applied	Beneficiary Allocation Factor Percentage Applied for Non-Regulated Cost Study Adjustments	Cost Study Nonregulated Adjustment [Removals/(Additions)]
2110	Land & Support Assets	Square Footage	4.28%	
2110	Land & Support Assets	Total Company Hours	4.00%	
2110	Land & Support Assets	Plant Hours	5.00%	
			Account 2110 Subtotal	**$27,913**
3100	Accumulated Depreciation – General Support	Square Footage	4.28%	
3100	Accumulated Depreciation – General Support	Total Company Hours	4.00%	
3100	Accumulated Depreciation – General Support	Plant Hours	5.00%	
			Account 3100 Subtotal	**($9,650)**
6112	Motor Vehicle Expense	Plant Hours	5.00%	$606
			Account 6112 Subtotal	**$606**
6120	General Support Expense	Square Footage	4.28%	
6120	General Support Expense	Total Company Hours	4.00%	
			Account 6120 Subtotal	**$2,080**
6560	Depreciation Expense	Square Footage	4.28%	
6560	Depreciation Expense	Total Company Hours	4.00%	

[28] *See* Table 1 for the five allocations factors.

[29] Beneficiary response to audit inquiries, received December 7, 2017.

[30] *See* 47 C.F.R. §§ 32.2110 (2014), 32.3100 (2014), 32.6112 (2014), 32.6120 (2014), 32.6560 (2014), 32.6620 (2014), 32.6711 (2014), 32.6720 (2014), and 32.7240 (2014).

6560	Depreciation Expense	Plant Hours	5.00%	
			Account 6560 Subtotal	**$944**
6620	Services Expense	Commercial Office Hours	3.00%	$466
			Account 6620 Subtotal	**$466**
6711	Executive Expense	Total Company Hours	4.00%	$581
			Account 6711 Subtotal	**$581**
6720	General and Administrative Expense	Big 3 Expense	2.97%	$3,056
			Account 6720 Subtotal	**$3,056**
7240	Operating Other Taxes	Big 3 Expense	2.97%	$14
			Account 7240 Subtotal	**$14**
			Grand Total	**$26,010**

Because the Beneficiary did not provide adequate documentation to substantiate its allocation factors (i.e. scope limitation), AAD cannot determine whether the Beneficiary recorded the proper cost study adjustment amounts or whether the amounts were based on the proper cost causative factors. At this time, AAD is unable to conclude that the Beneficiary accurately calculated cost study balances for High Cost Program purposes.

CAUSE

The Beneficiary did not have adequate documentation/data retention procedures to ensure the proper retention of records to demonstrate the factors used to allocate rate base and expense accounts for indirect costs related to non-regulated transactions were recorded in (1) the proper amount or (2) to the proper general ledger account. The Beneficiary informed AAD that they did not have nonregulated labor hours available for developing labor factors that incorporated both regulated and nonregulated labor hours; therefore, this required the Beneficiary to use alternative procedures and estimates to develop allocation factors.[31]

EFFECT

AAD is unable to calculate the monetary effect for this finding because there is insufficient documentation to support the proper regulated and non-regulated portion of total labor hours applicable for each allocation factor.

RECOMMENDATION

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.

[31] AAD paraphrased the Beneficiary's response to the Draft Audit Findings received March 20, 2020. *See* the "Beneficiary Response" section for the Beneficiary's full response regarding the root cause of this Finding.

BENEFICIARY RESPONSE

The Beneficiary (Company) did not have nonregulated labor hours available for developing labor factors that incorporated both regulated and nonregulated labor hours. For this reason, the Company was required to use alternative procedures for developing some Part 64 factors. This process included interviewing the two Company employees, reviewing the nonregulated functions they performed and estimating the amount of hours spent performing these functions. Based on these estimated hours, the Company made nonregulated cost allocations that they believed are appropriate. This included a nonregulated plant labor factor of 5 percent, a nonregulated commercial office labor factor of 3 percent, a nonregulated executive factor of 5 percent and a total company nonregulated labor factor of 4 percent. The Company did provide a response for the square footage factor (4.28 percent factor) along with supporting documentation in its May 2019 response to Audit Inquiry No. 70. The other Part 64 factors listed, the Big Three Expense factor (2.97 percent nonregulated), was calculated using the relative regulated and nonregulated expenses in the plant specific, plant nonspecific (excluding depreciation and amortization expenses) and customer services expenses. The Company did appropriately directly assign solely regulated and nonregulated costs in the Part 64 process, in addition to utilizing other factors besides those that were estimated during this process. The Part 64 allocations made for the 2014 cost study were significant given WeavTel's limited nonregulated activities, including allocating 1.25 percent of the telecommunications plant assets and 2.27 percent of the Company's operating expenses to nonregulated services.

The Beneficiary is now time reporting nonregulated labor hours by Part 32 account and these hours are used in the development of nonregulated related Part 64 allocation factors. The Company will continue to review, update and refine its Part 64 procedures (i.e., updating basic studies such as land and buildings) in order to fully comply with the FCC's Part 64 Rules and Regulations.

AAD RESPONSE

The Beneficiary emphasized in its response that it used regulated and non-regulated labor percentages as the basis for these five allocation factors. The Beneficiary stated in its responses that, "[b]ased on these estimated hours, the Company made nonregulated cost allocations that they believed are appropriate." While the Beneficiary explained its process for developing the estimated labor hours it assigned as regulated costs versus nonregulated costs, it was unable to provide the underlying documentation (*i.e.*, time study reports, labor distribution reports, timesheets, etc.) to support the estimated regulated and non-regulated labor hours used to develop the percentages used in the calculation of the five allocation factors.

The Beneficiary also stated in its response that, "[t]he Company did provide a response for the square footage factor (4.28 percent factor) along with supporting documentation in its May 2019 response to Audit Inquiry No. 70." While the Beneficiary did explain the square footage factor in its May 8, 2019 response to the audit inquiries record, it used labor hours to calculate the underlying source of the allocation between regulated and nonregulated square footages.[32] Because the Beneficiary did not provide documentation to support the labor hours used to allocate the square footages between regulated and nonregulated, the square footage documentation was not sufficient to support the allocated amounts reported in the Beneficiary's High Cost filings.

[32] Beneficiary response to audit inquiries, received May 8, 2019.

The Beneficiary also stated in its response that "the Big Three Expense factor (2.97 percent nonregulated), was calculated using the relative regulated and nonregulated expenses in the plant specific, plant nonspecific (excluding depreciation and amortization expenses) and customer services expenses." While the Beneficiary calculated the factor using relative regulated and nonregulated expenses, it based these factors on the underlying labor hours, for which the Beneficiary did not provide supporting documentation.

The Beneficiary informed AAD that no additional documentation was available to support the labor percentages used.[33] Because the Beneficiary did not provide adequate documentation to substantiate its allocation factors (i.e. scope limitation), AAD cannot determine whether the Beneficiary recorded the proper cost study adjustment amounts or whether it used amounts based on the proper cost causative factors.

For these reasons as noted above, AAD's position on this Finding remains unchanged.

AAD notes that the Beneficiary began receiving A-CAM II as of August 2019. AAD modifies its original recommendation to include the following statement, "Note: as of August 2019, the Beneficiary began receiving A-CAM II support in addition to HCL, CAF ICC, and CAF Broadband Loop Support (CAF BLS). While the Beneficiary is now receiving A-CAM II, HCL, CAF ICC and CAF BLS 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."

[33] Beneficiary response to audit inquiries, received December 7, 2017.

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.
#1	47 C.F.R. § 54.201(d) (2014)	(d) A common carrier designated as an eligible telecommunications carrier under this section shall be eligible to receive universal service support in accordance with section 254 of the Act and shall, throughout the service area for which the designation is received: (1) Offer the services that are supported by federal universal service support mechanisms under subpart B of this part and section 254(c) of the Act, either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and (2) Advertise the availability of such services and the charges therefore using media of general distribution.
#1	47 C.F.R. § 54.207(a) (2014)	(a) The term service area means a geographic area established by a state commission for the purpose of determining universal service obligations and support mechanisms. A service area defines the overall area for which the carrier shall receive support from federal universal service support mechanisms.
#1	47 U.S.C § 214(e)(6)	In the case of a common carrier providing telephone exchange service and exchange access that is not subject to the jurisdiction of a State commission, the Commission shall upon request designate such a common carrier that meets the requirements of paragraph (1) as an eligible telecommunications carrier for a service area designated by the Commission consistent with applicable Federal and State law.

Finding	Criteria	Description
		Upon request and consistent with the public interest, convenience and necessity, the Commission may, with respect to an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated under this paragraph, so long as each additional requesting carrier meets the requirements of paragraph (1). Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the Commission shall find that the designation is in the public interest.
#2 & #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.
#2	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.
#2	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.
#2	47 C.F.R. § 32.6121 (2014)	(a) This account shall include expenses associated with land and buildings (excluding amortization of leasehold improvements). This account shall also include janitorial service, cleaning supplies, water, sewage, fuel and guard service, and electrical power. (b) The cost of electrical power used to operate the telecommunications network shall be charged to Account 6531, Power Expense, and the cost of separately metered electricity used for operating specific types of equipment, such as computers, shall be charged to the expense account appropriate for such use.
#2	47 C.F.R. § 32.6230 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6231 and 6232.
#2	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 & #3	47 C.F.R. § 32.6711 (2014)	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 & #3	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-

Finding	Criteria	Description
		designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating longterm courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, 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;

Finding	Criteria	Description
		(9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements. (j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.
#2	47 C.F.R. § 32.7500 (2014)	(a) This account shall include the current accruals of interest on all classes of funded debt the principal of which is includable in Account 4200, Long term debt and funded debt. It shall also include the interest on funded debt the maturity of which has been extended by

Finding	Criteria	Description
		specific agreement. This account shall be kept so that the interest on each class of funded debt may be shown separately in the annual reports to this Commission. (b) These accounts shall not include charges for interest on funded debt 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 or other funds. (c) Interest expressly provided for and included in the face amount of securities issued shall be charged at the time of issuance to Account 1280, Prepayments, and cleared to this account as the term expires to which the interest applies. (d) This account shall also include monthly amortization of balances in Account 4200, Long-term debt and funded debt. (e) This account shall include the interest portion of each capital lease payment. (f) This account shall include the monthly amortization of the balances in Account 1410, Other noncurrent assets. (g) This account shall include all interest deductions not provided for elsewhere, e.g., discount, premium, and expense on notes maturing one year or less from date of issue. (h) A list of representative items of indebtedness, the interest on which is chargeable to this account, follows: (1) Advances from affiliated companies; (2) Advances from nonaffiliated companies and other liabilities; (3) Assessments for public improvements past due; (4) Bond coupons, matured and unpaid; (5) Claims and judgments; (6) Customers' deposits; (7) Funded debt mature, with respect to which a definite agreement as to extension has not been made; (8) Notes payable on demand or maturing one year or less from date of issue; (9) Open accounts; (10) Tax assessments, past due; and (11) Discount, premium, and issuance expense of notes maturing one year or less from date of issue.
#3	47 C.F.R. § 32.6112 (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

Finding	Criteria	Description
		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.
#3	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.
#3	47 C.F.R. § 64.901(b)(3)(ii) (2014)	When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.
#3	47 C.F.R. § 69.2(e) (2014)	Big Three Expenses are the combined expense groups comprising: Plant Specific Operations Expense, Accounts 6110, 6120, 6210, 6220, 6230, 6310 and 6410; Plant Nonspecific Operations Expenses, Accounts 6510, 6530 and 6540, and Customer Operations Expenses, Accounts 6610 and 6620.
#3	47 C.F.R. § 32.2110 (2014)	This account shall be used by Class B companies to record the original cost of land and support assets of the type and character required of Class A companies in Accounts 2111 through 2124.
#3	47 C.F.R. § 32.3100 (2014)	(a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense—telecommunications plant in service. (Note also Account 3300, Accumulated depreciation—nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in §32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.
#3	47 C.F.R. § 32.6560 (2014)	Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6561 through 6565.
#3	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.
#3	47 C.F.R. § 32.7240 (2014)	(a) This account shall be charged and Account 4080, Other Taxes—Accrued, shall be credited for all taxes, other than Federal, state and

Finding	Criteria	Description
		local income taxes and payroll related taxes, related to regulated operations applicable to current periods. Among the items includable in this account are property, gross receipts, franchise and capital stock taxes; this account shall also reflect subsequent adjustments to amounts previously charged. (b) Special assessments for street and other improvements and special benefit taxes, such as water taxes and the like, shall be included in the operating expense accounts or investment accounts, as may be appropriate. (c) Discounts allowed for prompt payment of taxes shall be credited to the account to which the taxes are chargeable. (d) Interest on tax assessments which are not paid when due shall be included in Account 7500, Interest and related items. (e) Taxes paid by the company under tax-free covenants on indebtedness shall be charged to Account 7300, Nonoperating income and expense. (f) Sales and use taxes shall be accounted for, so far as practicable, as part of the cost of the items to which the taxes relate. (g) Taxes on rented telecommunications plant which are borne by the lessee shall be credited by the owner to Account 5200, Miscellaneous revenue, and shall be charged by the lessee to the appropriate Plant Specific Operations Expense account.

Summary of High Cost Support Mechanism Beneficiary Audit Report Released: September 2, 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Ace Telephone Company of Michigan – Drenthe **Attachment F**	8	• Lack of Documentation: Central Office Equipment and Cable and Wire Facilities. The Beneficiary was not able to provide documentation to substantiate portions or the entire value of some COE and C&WF assets. • Inaccurate General and Administrative Expense Amount. The Beneficiary did not clear overhead amounts to all plant specific operations expense accounts and/or did not clear overhead amounts using direct labor hours.	$98,068	$50,657	$50,657	N

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
SRT Communications Inc. **Attachment G**	10	• Misclassified Assets and Expenses. The Beneficiary recorded certain assets and expenses to the incorrect Part 32 account. • Inaccurate Cost Study Balances: Plant in Service and Accumulated Depreciation. The Beneficiary did not accurately report its average for Telephone Plant in Service and its associated depreciation balances. • Inaccurate Central Office Equipment and Cable and Wire Facilities Reporting. The Beneficiary included a transaction in its CPRs that was not associated with an asset; the Beneficiary did not correctly calculate the value of two COE assets; and the Beneficiary did not allocate overhead distributions based on the cost to install the assets, instead the Beneficiary allocated the	$6,296,548	$(1,637,121)	$0[1]	N

[1] Given the monetary effect for all findings representing a net underpayment, the USAC recovery action is zero as USAC's policy is to not issue support for a net underpayment.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
		overhead values based on the value of the assets. • Inaccurate Depreciation Calculation. The Beneficiary incorrectly calculated its depreciation expense for High Cost Program purposes. • Inaccurate Loop Count Reporting. The Beneficiary did not accurately report the number of total loops and Category 1.3 loops for High Cost Program purposes.				
Total	**18**		$6,394,616	($1,586,464)	$50,657	

Attachment F

HC2017LR029

Universal Service Administrative Co.

Ace Telephone Company of Michigan - Drenthe

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

USAC Audit No. HC2017LR029

TABLE OF CONTENTS

EXECUTIVE SUMMARY

June 15, 2020

Ms. Cynthia Sweet
Controller
Ace Telephone Company of Michigan - Drenthe
207 East Cedar Street
Houston, MN 55943

Dear Ms. Sweet:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Ace Telephone Company of Michigan - Drenthe (Beneficiary), study area code 310692 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 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 nine 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,

Jeanette Santana-Gonzalez

for 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) – Lack of Documentation: Central Office Equipment and Cable and Wire Facilities The Beneficiary was not able to provide documentation to substantiate portions or the entire value of some COE and C&WF assets.	$32,278
Finding #2: 47 C.F.R. § 54.1305(f) and 54.1306(a)(3) – Inaccurate General and Administrative Expense Amount The Beneficiary did not clear overhead amounts to all plant specific operations expense accounts and/or did not clear overhead amounts using direct labor hours.	$14,045
Finding #3: 47 C.F.R. § 64.901(a) – Inaccurate Cost Study Adjustments – Operating Taxes The Beneficiary incorrectly calculated the amount of operating taxes to be allocated for High Cost Program purposes.	$4,994
Finding #4: 47 C.F.R. § 69.104(h) – Misclassified Access Lines The Beneficiary did not correctly classify some of its access lines reported for High Cost Program purposes.	$1,944
Finding #5: 47 C.F.R. § 54.1305(d) Inaccurate Cable and Wire Facilities Depreciation Expense The Beneficiary did not accurately report C&WF depreciation expense.	$1,102
Finding #6: 47 C.F.R. § 32.2000€(f) – Improper Continuing Property Records The Beneficiary's continuing property records for Cable and Wire Facilities lacked sufficient detail for High Cost Program purposes.	$0
Finding #7: 47 C.F.R. § 64.901(a) – Inaccurate Cost Study Adjustments – Deferred Taxes The Beneficiary incorrectly calculated the amount of deferred taxes to be allocated for High Cost Program purposes.	$(1,232)
Finding #8: 47 C.F.R. § 54.320 (b) – Lack of Documentation: Exogenous Cost True-Up Adjustment The Beneficiary was not able to provide documentation related to its reported exogenous costs.	($2,474)
Total	**$50,657**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for the High Cost Program support amount noted in the chart below. Note: USAC's High Cost Program Management does not net findings across SACs and High Cost does not pay additional support in the event of a finding of

[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.

underpayment. The Beneficiary must implement policies and procedures necessary to comply with the Rules. USAC directs 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	$15,860	$16,418	$0	$32,278	
Finding #2	$14,045	$0	$0	$14,045	
Finding #3	$4,934	$60	$0	$4,994	
Finding #4	$0	$1,944	$0	$1,944	
Finding #5	($650)	$1,752	$0	$1,102	
Finding #6	$0	$0	$0	$0	
Finding #7	($1,001)	($231)	$0	($1,232)	
Finding #8	$0	$0	($2,474)	($2,474)	
Mechanism Total	**$33,188**	**$19,943**	**($2,474)**	**$50,657**	

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	$41,382
High Cost Loop (HCL)	2014	2016	$15,860
Interstate Common Line Support (ICLS)	2014	2016	$40,826
Total			**$98,068**

BACKGROUND

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

PROCEDURES

AAD performed the following procedures:

[2] *Id.*

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.

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) – Lack of Documentation and Inadequate Documentation: Central Office Equipment and Cable and Wire Facilities Assets

CONDITION

AAD requested documentation for a sample of 27 assets totaling $2,554,753 to determine whether the Beneficiary reported the correct amounts for High Cost (HC) Program purposes. The Beneficiary did not provide documentation (copies of invoices) to substantiate the value of (1) five Central Office Equipment (account 2230) assets totaling $24,942 as of its December 31, 2014 and $26,557 as of its September 30, 2015 HC filings; and (2) one Cable and Wire Facility (account 2423) asset, totaling $1,349,472 as of its December 31, 2014 and September 30, 2015 HC filings, respectively.[3] Because the Beneficiary did not provide documentation to substantiate six assets (i.e., scope limitation), AAD cannot conclude that the value of the assets was accurate.

In addition, AAD noted the Beneficiary was unable to provide documentation to substantiate the entire value of one Central Office Equipment (COE) asset and one Cable and Wire Facility asset (CWF):

Account Description[4]	**As Reported – CPRs** **A**	**Supported by Sufficient Documentation** **B**	**Difference Overstated/ (Understated)** **A-B**
Central Office – Transmission (account 2230) (12/31/2014)	$4,668	$3,030	$1,638
Central Office – Transmission (account 2230) (9/30/2015)	$7,016	$3,030	$3,986
Buried Cable (account 2423) (12/31/2014)	$184,362	$25,711	$158,651
Buried Cable (account 2423) (9/30/2015)	$184,362	$25,711	$158,651

[3] This lack of documentation finding affected two HCL filings (15-1 and 15-4) during the audit period. The monetary effect has been calculated to avoid the double-counting of these exceptions.
[4] This inadequate documentation finding affected two HCL filings (15-1 and 15-4) during the audit period. AAD calculated the monetary effect to avoid the double-counting of these exceptions.

CAUSE

The Beneficiary did not have documentation or data retention procedures to ensure the proper retention of records to demonstrate that it had recorded assets at the proper value for High Cost Program purposes. The Beneficiary informed AAD that detailed property records were not provided to the Beneficiary by the previous owner.[5]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by subtracting the recorded value of the missing invoices\overstatement from the total amount reported by the Beneficiary in its respective accounts in the High Cost Program Filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	$15,860
ICLS	$16,418
Total	**$32,278**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must develop and implement policies and procedures to bring its property records into compliance, and to maintain such records with the level of detail required by FCC Rules. AAD recommends the Beneficiary to consider conducting a complete inventory of the COE and C&WF plant in service as well as an evaluation of the actual original cost of the property, or estimates if the original cost is unknown. In addition, the Beneficiary must develop and implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the FCC 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

> Ace Telephone Company of Michigan, Inc – Drenthe has implemented policies and procedures to ensure records retention and compliance with the Rules. As noted in earlier responses, Drenthe Telephone was an average schedule company that was purchased by Allendale Telephone prior to its purchase by Ace and its prior records were not provided or available.

[5] Beneficiary responses to audit inquiries, received May 29, 2019.

Finding #2: 47 C.F.R. § 54.1305(f) and 54.1306(a)(3) – Inaccurate General and Administrative Expense Amount

CONDITION

AAD obtained and examined the Beneficiary's general ledgers to determine whether the Beneficiary reported the correct amounts for High Cost (HC) Program purposes. The Beneficiary reported General and Administrative (GA) expense (account 6720) in its September 30, 2015 HC filing that exceeded the actual expense amount recorded in its general ledger; thus, resulting in an over reported amount of $101,244. Because the Beneficiary's supporting documentation did not agree to what it had reported, AAD concludes that the GA expense amount was inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed AAD that a mathematical error was made when calculating the September 20, 2015 balance.[6]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by subtracting the recorded value of the overstatement from the total amount reported by the Beneficiary in account 6720 on the HC filing.

Support Type	Monetary Effect and Recommended Recovery
HCL	$14,045

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement a system adequate to properly report the correct amounts 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

Ace Telephone Company of Michigan, Inc - Drenthe has implemented procedures to properly report the correct amounts for future reporting.

[6] Beneficiary responses to audit inquiries, received May 29, 2019.

Finding #3: 47 C.F.R. § 64.901(a) – Inaccurate Cost Study Adjustments – Operating Taxes

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation to determine whether the Beneficiary's cost study adjustments were correctly calculated for High Cost (HC) Program purposes. AAD determined that in the calculation used to allocate some operating taxes (property tax) between the Beneficiary and its affiliated entities, the Beneficiary over-allocated the amount of property taxes to the Beneficiary by $362 in its December 31, 2014 HC filing. In addition, AAD reviewed the Beneficiary's allocation factors worksheets and noted that the Beneficiary reported an amount that exceeded the actual total operating taxes (income taxes and property taxes) by $39,994 in its September 30, 2015 HC filing. Thus, the Beneficiary over reported its property taxes by $362 and its income and property taxes by $39,994 in Operating Taxes expense (account 7200) for the periods ending December 31, 2014 and September 30, 2015, respectively.[7] Because the Beneficiary did not properly calculate its cost study adjustments, AAD concludes that its income taxes and property taxes were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed AAD that an error was made during the cost allocation process and the error was not caught during the review process.[8]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by subtracting the recorded value of the overstatement from the total amount reported by the Beneficiary in its Operating Taxes expense (account 7200) on the HC filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	$4,934
ICLS	$60
Total	**$4,994**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly report the correct amounts for High Cost Program purposes. 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/.

[7] This cost study adjustment finding affected two HCL filings (15-1, 12 months ending December 31, 2014 and 15-4, 12 months ending September 30, 2015) but did not overlap during the audit period. AAD calculated the monetary effect to avoid the double-counting of these exceptions.
[8] Beneficiary responses to audit inquiries, received May 29, 2019.

BENEFICIARY RESPONSE

Ace Telephone Company of Michigan, Inc – Drenthe has implemented procedures to properly report the correct amounts for future reporting.

Finding #4: 47 C.F.R. § 69.104(h) – Misclassified Access Lines

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing to determine whether the Beneficiary properly classified and reported its residential/single-line business (Res/SLB) and multi-line business (MLB) line counts as of December 31, 2014 for Interstate Common Line Support (ICLS) purposes. AAD identified the following differences between the Beneficiary's subscribers listing and the access line count amount and classification it reported:

	Residential/Single Line Business	**Multi-Line Business**
Access Counts Reported	412	8
Access Counts per Subscriber Listing	352	68
Difference: Over/(Under) Reported	**60**	**(60)**

Because the Beneficiary's supporting documentation did not agree to what was reported, AAD concludes that access line counts were inaccurate.[9]

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report the correct number and classification of subscriber access line for High Cost Program purposes. The Beneficiary informed AAD that a complete review of the prior owner's business lines' classification was not completed until 2016.[10]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by multiplying the difference between the Res\SLB rate ($6.50) and the MLB rate ($9.20) times 12 months ($2.70 * 12 months * 60 subscribers).

Support Type	**Monetary Effect & Recommended Recovery**
ICLS	$1,944

[9] 47 C.F.R. 69.104(h).
[10] Beneficiary responses to audit inquiries, received May 29, 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 the proper classification of its line counts for ICLS purposes. 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

> Ace Telephone Company of Michigan, Inc – Drenthe has implemented audits and reviews to ensure the proper classification of its lines counts.

Finding #5: 47 C.F.R. § 54.1305(d) – Inaccurate Cable and Wire Facilities Depreciation Expense

CONDITION

AAD obtained and examined the Beneficiary's general ledger and depreciation schedules to determine whether the Beneficiary reported the correct amount of depreciation expense for High Cost (HC) Program purposes. AAD determined that in the calculation used to allocate depreciation expense (account 6423) and accumulated depreciation (account 3100) between the Beneficiary and its affiliated entity, the Beneficiary over-allocated the amount of depreciation expense and accumulated depreciation related to cable and wire facilities (CWF) to the Beneficiary by $13,702 in its December 31, 2014 HC filing. Thus, the Beneficiary reported CWF depreciation that exceeded its actual expense by $13,702. Because the Beneficiary's supporting documentation did not agree to what was reported, AAD concludes that the cable and facilities depreciation expense and accumulated depreciation were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed AAD that the error was caused by an incorrect cost study allocation.[11]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by subtracting $13,702 from the total amount reported by the Beneficiary in its depreciation expense and accumulated depreciation accounts on the HC filing.

Support Type	Monetary Effect and Recommended Recovery
HCL	($650)
ICLS	$1,752

[11] Beneficiary responses to audit inquiries, received May 29, 2019.

Total		**$1,102**

RECOMMENDATION
AAD recommends that USAC management seek recovery of the recommended recovery amounts identified in the Effect section above. The Beneficiary must implement a system adequate to properly report the correct amounts for High Cost Program purposes. 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
Ace Telephone Company of Michigan, Inc – Drenthe has implemented procedures to properly report the correct amounts for future reporting.

Finding #6: 47 C.F.R. § 32.2000(e)(f) – Improper Continuing Property Records

CONDITION
AAD obtained and examined the Continuing Property Records (CPR) to determine whether the Beneficiary properly maintained its property records. AAD determined that the Beneficiary's Cable and Wire Facility (CWF) property records lacked sufficient detail, specifically a physical location or address, for the auditors to verify the property by physical examination of the assets recorded. Additionally, this lack of detail will not allow for the accurate accounting of future CWF retirements. Because the Beneficiary's CPR lacked sufficient detail, AAD was unable to conclude that the CPR for CWF were properly maintained (i.e., scope limitation).

CAUSE
The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to include the proper level of detail. AAD notes that the Beneficiary converted from an Average Schedule Company to a Cost Company in 2011, however, plant additions subsequent to that date also lacked sufficient detail. The Beneficiary informed AAD that this issue occurred due to the prior owner not providing detailed property records.[12]

EFFECT
There is no monetary effect for this finding. However, detailed property records are an essential component of retiring assets when removed from service, or transferring assets among locations. While there is no monetary impact of this finding, AAD notes that the failure to maintain property records that can be physically verified with sufficient detail to accurately account for retirements increases the probability for errors in future High Cost filings.

RECOMMENDATION
The Beneficiary must develop and implement policies and procedures to bring its property records into compliance, and to maintain such records with the level of detail required by FCC Rules. AAD recommends

[12] Beneficiary responses to audit inquiries, received May 29, 2019.

the Beneficiary to consider conducting a complete inventory of the COE and C&WF plant in service as well as an evaluation of the actual original cost of the property, or estimates if the original cost is unknown. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Ace Telephone Company of Michigan, Inc – Drenthe has implemented policies and procedures to ensure detailed property records are maintained with the level of detail to be compliant with FCC rules.

Finding #7: 47 C.F.R. § 64.901(a) – Inaccurate Cost Study Adjustments - Deferred Taxes

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation to determine whether the Beneficiary's cost study adjustments were correctly calculated for High Cost (HC) Program purposes. AAD determined that the Beneficiary over-allocated the amount of deferred taxes to the Beneficiary's plant in service assets accounts by $22,832 (net) in its December 31, 2014 and September 30, 2015 HC filings. Thus, the Beneficiary reported deferred taxes that exceeded its actual deferral by $22,832. Thus, the Beneficiary reported CWF depreciation that exceeded its actual expense by $13,702. Because the Beneficiary did not properly calculate its cost study adjustments, AAD concludes that its deferred operating income taxes were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed AAD that the error was caused by an incorrect cost study allocation.[13]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by subtracting the recorded value of the overstatement from the total amount reported by the Beneficiary in its respective accounts on the HC filings.

Support Type	Monetary Effect
HCL	($1,001)
ICLS	($231)
Total	**($1,232)**

[13] Beneficiary responses to audit inquiries, received May 29, 2019.

RECOMMENDATION

The Beneficiary must implement an adequate system to properly report the correct amounts 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

Ace Telephone Company of Michigan, Inc – Drenthe has implemented procedures to properly report the correct amounts for future reporting.

Finding #8: 47 C.F.R. § 54.320(b) – Lack of Documentation: Exogenous Cost True-Up Adjustment

CONDITION

AAD requested the Beneficiary's CAF Intercarrier Compensation (ICC) True-up documentation to determine whether the Beneficiary reported accurate exogenous cost amounts for High Cost Program purposes. The Beneficiary did not provide documentation to support its reported exogenous cost true-up adjustment. Because exogenous costs are calculated by applying the incremental factors in mandatory Telecommunication Relay Service (TRS), FCC regulatory, and North American Number Plan Association (NANPA) fees in its Eligible Recovery to the interstate total end-user revenue amount reported on the FCC Form 499, AAD used the amount reported by the Beneficiary on its FCC Form 499 to calculate the exogenous cost true-up adjustment for the 2013-2014 year. AAD determined that the Beneficiary under-reported its exogenous cost true-up adjustment as noted below.

Exogenous Cost Reported to USAC	Exogenous Cost Recalculated by AAD[14]	Under Reported Amount
$348	$5,297	$4,949

Because the Beneficiary did not have adequate supporting documentation, AAD concludes that the exogenous cost true-up adjustment was inaccurate.

CAUSE

[14] AAD calculated the exogenous cost by determining the incremental increase in the TRS, NANPA, and FCC Regulatory fees above the 2012 base year tariff filing reported amounts.

The Beneficiary must implement policies and procedures to ensure it retains adequate records to demonstrate compliance with the Rules. The Beneficiary informed AAD that it was unable to provide the calculation used for the 2013-2014 program year filing.[15]

EFFECT

As summarized below, AAD calculated the monetary effect for this finding by including the half of the under-reported amount to the true-up payments reported for CAF ICC (*i.e.*, six months).[16]

Support Type	Monetary Effect
CAF ICC	($2,474)[17]

RECOMMENDATION

The Beneficiary must ensure that it has an adequate system to maintain documentation to demonstrate compliance with FCC Rules. 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

Ace Telephone Company of Michigan, Inc – Drenthe has implemented procedures to properly report the correct amounts for future reporting.

[15] Responses to the Audit Inquiries Record dated May 29, 2019.
[16] The CAF ICC program year provides for the disbursement of funds on a July to June basis, with true-up payments disbursed two years after the program year. The true-up payment for the 2012 – 2013 CAF ICC program year was disbursed from July 2014 to June 2015 (based on data submitted in June 2014) and the true-up payment for the 2013 – 2014 CAF ICC program year was disbursed from July 2015 to July 2016 (based on data submitted in June 2015). The audit period includes an examination of disbursements paid in 2015. Therefore the monetary effect for this Finding accounts for the last six months of the true-up payment that occurred from January to June 2015 that corresponds to the 2012–2013 program year and the first six months of the true-up payment that occurred from July to December 2015 corresponds to the 2013 – 2014 program year.
[17] Because it is High Cost Program Management's policy to round down CAF ICC Support to the nearest dollar throughout the calculation, the monetary effect will not equal the total variance noted divided by half.

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."
#2	47 C.F.R. § 54.1305(f) (2014).	"Unseparated corporate operations expenses, operating taxes, and the benefits and rent proportions of operating expenses. The amount for each of these categories of expense shall be the actual amount for that expense for the calendar year preceding each July 31st filing. The amount for each category of expense listed shall be stated separately."
#2	47 C.F.R. § 54.1306(a)(3) (2014).	"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. 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, 7	47 C.F.R. § 64.901(a) (2014).	"Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose."
#4	47 C.F.R. § 69.104(h) (2014).	"(h) A line shall be deemed to be a single line business line if the subscriber pays a rate that is not described as a residential rate in the local exchange service tariff and does not obtain more than one such line from a particular telephone company."
#5	47 C.F.R. § 54.1305(d)	"(d) Unseparated depreciation expense attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. This amount shall be the actual depreciation expense for the calendar year preceding each July 31st filing."
#6	47 C.F.R. § 32.2000(e)(f) (2014).	"(e) *Basic property records.* (1) The basic property records are that portion of the total property accounting system which preserves the following detailed information: (i) The identity, vintage, location and original cost of units of property; (6)(i) The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). The continuing property records shall be maintained as prescribed in §32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives: (A) Provide for the verification of property record units by physical examination.

Finding	Criteria	Description
		(B) Provide for accurate accounting for retirements. (f) *Standard practices for establishing and maintaining continuing property records—* (2) *Property record units.* (iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also paragraph (f)(3) of this section) of the property record units. The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts) and maintained in such manner as will provide for the verification of property record units by physical examination. 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. (5) *Identification of property record units.* There shall be shown in the continuing property record or in record supplements thereof, a complete description of the property records units in such detail as to identify such units. The description shall include the identification of the work order under which constructed, the year of installation (unless not determinable per §32.2000(f)(4) of this subpart, specific location of the property within each accounting area in such manner that it can be readily spot-checked for proof of physical existence, the accounting company's number or designation, and any other description used in connection with the determination of the original cost."
#8	47 C.F.R. § 54.320(b)	"(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."

Attachment G

HC2017LR010

Universal Service
Administrative Co.

Available for Public Use

SRT Communications Inc.

Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules
USAC Audit No. HC2017LR010

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EXECUTIVE SUMMARY

July 2, 2020

Julie E. Lizotte
Director of Regulatory Affairs
SRT Communications Inc.
3615 N. Broadway
Minot, ND 58703

Dear Ms. Lizotte:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of SRT Communications Inc. (Beneficiary), study area code 383303 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 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 ten 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,

Jeanette Santana Gonzales

for 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. § 32.2(a)(b) - Misclassified Assets and Expenses. The Beneficiary recorded certain assets and expenses to the incorrect Part 32 account.	$67,404
Finding #2: 47 C.F.R. § 54.1305 (b-c), (g-h) – Inaccurate Cost Study Balances: Plant in Service and Accumulated Depreciation. The Beneficiary did not accurately report its average for Telephone Plant in Service and its associated depreciation balances.	$29,292
Finding #3: 47 C.F.R. § 54.320(b) (2011) – Inadequate Documentation: Allocation Methodology for Expenses. The Beneficiary did not provide adequate documentation to substantiate its expenses in the proper amount and to the proper general ledger account.	$7,340
Finding #4: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support. 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.	$2,919
Finding #5: 47 C.F.R. § 51.917(d)(ii)(A)(B) – Inaccurate Intrastate Terminating Switched Access Service Revenues. The intrastate terminating switched access revenues identified on the Beneficiary's billing reports and general ledger did not agree to the reported revenues for High Cost Program purposes.	$1,761
Finding #6: **47 C.F.R. § 32.2000(e)(2) – Improper Property Records.** The Beneficiary did not update its Cable and Wire Facilities (C&WF) property records in a timely manner.	N/A
Finding #7: 47 C.F.R. § 36.121(c) – Improper Power and Common Equipment Allocation. The Beneficiary's calculation used to allocate power and common equipment among its Central Office Equipment (COE) investment was incorrect.	$(13,707)
Finding #8: **47 C.F.R. § 32.2000(e)(1)(I-II), 47 C.F.R. § 32.2210, 47 C.F.R. § 32.2410 – Inaccurate Central Office Equipment and Cable and Wire Facilities Reporting.** The Beneficiary included a transaction in its CPRs that was not associated with an asset. In addition, the Beneficiary did not correctly calculate the value of two COE assets. Further, the Beneficiary did not allocate overhead distributions based on the cost to install the assets, instead the Beneficiary allocated the overhead values based on the value of the assets.	$(52,049)
Finding #9: 47 C.F.R. § 32.2000 (g)(2)(III) – Inaccurate Depreciation Calculation. The Beneficiary incorrectly calculated its depreciation expense for High Cost Program purposes.	$(493,134)

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

Audit Results	Monetary Effect & Recommended Recovery[1]
Finding #10: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Count Reporting. The Beneficiary did not accurately report the number of total loops and Category 1.3 loops for High Cost Program purposes.	$(1,186,947)
Total	**$(1,637,121)**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for the High Cost Program support amount noted in the chart below. Note: USAC's High Cost Program Management does not net findings across SACs and High Cost does not pay additional support in the event of a finding of underpayment. 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)	SVS (C)	CAF ICC (D)	USAC Recovery Action (A) + (B) + (C)+(D)[2]	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$21,213	$46,191	$0	$0	$67,404	
Finding #2	$0	$29,292	$0	$0	$29,292	
Finding #3	$5,450	$1,779	$111	$0	$7,340	
Finding #4	$3,265	($1,219)	$873	$0	$2,919	
Finding #5	$0	$0	$0	$1,761	$1,761	
Finding #6	$0	$0	$0	$0	$0	
Finding #7	($52,911)	$37,958	$1,246	$0	$(13,707)	
Finding #8	($50,251)	($1,798)	$0	$0	($52,049)	
Finding #9	($253,365)	($231,445)	($8,324)	$0	($493,134)	
Finding #10	($1,186,947)	$0	$0	$0	($1,186,947)	
Mechanism Total	**$(1,513,546)**	**$(119,242)**	**$(6,094)**	**$1,761**	**($1,637,121)**	

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.

[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	$1,572,738
High Cost Loop (HCL)	2014-2015	2016	$137,077
Interstate Common Line Support (ICLS)	2014	2016	$4,508,024
Safety Valve Support (SVS)	2014	2016	$78,709
Total			**$6,296,548**

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

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. § 32.2(a)(b) - Misclassified Assets and Expenses

CONDITION

AAD obtained and examined the Beneficiary's general ledger, Continuing Property Records (CPR) and cost study adjustments to determine whether the Beneficiary recorded its assets and expenses, including a judgmental sample based on high-impact accounts, of 40 asset transactions totaling $6,811,188 and 23 expense transactions totaling $627,084 in the proper amount and to the proper general ledger account for High Cost Program purposes.

AAD examined the documentation and determined that the Beneficiary misclassified the following assets and expenses:

- One Central Office Equipment (COE) Switching asset sample totaling $28,901 and 4 out of the 14 Ethernet cards, totaling $13,500 related to one COE Transmission asset sample that had not been placed in service as of the date of the AAD site visit. The Beneficiary explained that these assets were spare equipment and the carrier capitalized and depreciated the assets along with the rest of the in-service equipment when the technology was replaced.[3] Given the Beneficiary's assertion, the assets should have been recorded to Inventory (account 1220) instead of COE Switching (account 2210) and COE Transmission (account 2230).
- One Cable and Wire Facilities (CWF) asset sample, totaling $140,058, that relates to optical network terminal (ONT) should have been recorded to COE Transmission (account 2230) instead of CWF (account 2410).
- One Inventory Materials and Supplies asset sample totaling $76,629, that related to a non-regulated activity should have been recorded to Inventory Non-Regulated (account 1220.2) instead of Inventories Regulated (account 1220.1).
- One expense sample of $12,121 that related to equipment maintenance service for calendar year 2015 and a portion of one expense sample of $1,250 that related to equipment insurance for a year that included three months of calendar year 2015 should have been recorded to Prepayments (account 1280) instead of General Support expense (account 6120) and COE Switching Expense (account 6210), respectively.
- A portion of two expense samples totaling $4,260 that related sales of inventory assets that should have been recorded to Non-Operating Income and Expense (account 7300) instead of CWF Expense (account 6410).
- One expense sample of $21,458 that related to an inventory adjustment should have been recorded to Other Operating Expense (account 6510) instead of COE Transmission Expense (account 6230).

[3] See Beneficiary responses to audit inquiries, received April 5, 2018.

- Two expense samples of $367 that related to human relations expense that should have been recorded to General and Administrative Expense (account 6720) instead of Engineering Expense (account 6535).

Because the Beneficiary improperly recorded 4 asset and 7 expense transactions totaling $298,544, AAD concludes that a portion of the Beneficiary's assets and expenses are not recorded in the proper amount and to the proper general ledger account. The Beneficiary must record its assets and expenses in the proper amount and to the proper general ledger account for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly record assets and expenses to the proper general ledger account for High Cost Program purposes. The Beneficiary informed AAD that these issues occurred because inadvertent accounting clerical errors.[4]

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by adding or subtracting the recorded value of the asset and expense transactions from the total amount reported by the Beneficiary in its respective accounts on the High Cost filing.

Support Type	Monetary Effect and Recommended Recovery
HCL	$21,213
ICLS	$46,191
Total	**$67,404**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly record its assets and expenses to the proper general ledger account 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

SRT Communications, Inc. agrees with the listed condition and will reflect the changes to our booking of spares and non-regulated materials and supplies in our future USF and Cost Study Filings. ONTs have already been moved to COE transmission in subsequent USF filings.

[4] See Beneficiary responses to audit results summary, received February 21, 2020.

Finding #2: 47 C.F.R. § 54.1305 (b-c), (g-h) – Inaccurate Cost Study Balances: Plant in Service and Accumulated Depreciation

CONDITION

AAD obtained and examined the Beneficiary's general ledger and cost studies to determine whether the Beneficiary's Part 36 cost study balances were accurately reported for High Cost Program purposes. The Beneficiary used the incorrect 2013 balances when calculating the average balance used in its 2014 cost study. In our review of the documentation, AAD determined that the Beneficiary's Telephone Plant in Service (account 2001) was overstated by $1,977,518 and Accumulated depreciation (account 3100) was overreported by $1,369,476. Because the Beneficiary did not accurately report its average asset balances, AAD concludes that the Part 36 cost study balances were incorrect.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary relied on the work of a cost consultant and the cost consultant did not update 2013 general support adjustments for non-regulated use.[5]

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by subtracting the value of the over reported amounts from the total amount reported by the Beneficiary in its respective accounts on the High Cost Program Filings.

Support Type	Monetary Effect and Recommended Recovery
ICLS	$29,292
Total	**$29,292**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must implement an adequate system to properly report the correct amounts 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

SRT Communications, Inc. agrees with the listed condition. The non-regulated general support adjustment was only an issue for 2013 plant balances. This will not impact future USF filings.

[5] Beneficiary responses to audit inquiries, received February 21, 2020.

Finding #3: 47 C.F.R. § 54.320(b) (2011) – Inadequate Documentation: Allocation Methodology for Expenses

CONDITION

AAD obtained and examined the general ledger and cost study balances to determine whether the Beneficiary reported accurate expense balances, including a judgmental sample based on high-impact accounts, of 23 expense transactions totaling $627,084, for High Cost Program purposes. AAD examined the documentation and determined that the Beneficiary did not have adequate documentation to substantiate that its allocation methodology for three of the 23 expense samples was in accordance with the FCC Rules and Orders.

Account Affected[6]	Number of Samples with Exception[7]	Value of Samples with Exception	Unsupported Portion of Samples with Exception
6121 - Land and Building Expense	1	$13,298	($3,500)
6423 – Buried Cable Expense	1	$74,162	($2,000)
6531 – Power Expense	1	$17,253	$17,253
Total	**3**	**$104,713**	**$11,753**

Copies of invoices, detailed allocation schedules, and other relevant documentation are required to substantiate that the Beneficiary recorded its expenses and allocations in the proper amount and to the proper general ledger account. Because the Beneficiary did not provide adequate documentation to substantiate its expenses and allocations, AAD concludes that the expense transactions were not recorded in the proper amount and to the proper general ledger account and that 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 its expenses were recorded in the proper amount and to the proper general ledger account. The Beneficiary informed AAD that these issues occurred because inadvertent accounting clerical errors.[8]

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by (1) adding the following amounts to the amount reported by the Beneficiary on the High Cost Program filings: (i) $3,500 to the Land and Building Expense account, and (ii) $2,000 to the Buried Cable Expense account; and (2)

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[6] *See* 47 C.F.R. § 32.6121 (2002); 47 C.F.R. § 32. 6423 (2002); 47 C.F.R. § 32.6531 (2002).

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

[8] See Beneficiary responses to audit results summary, received February 21, 2020.

subtracting the $17,253 from the amount the Beneficiary reported on the Power Expense account on its High Cost Program filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	$5,450
ICLS	$1,779
SVS	$111
Total	**$7,340**

RECOMMENDATION

AAD recommends that 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 compliance with FCC Rules and Orders. The Beneficiary may learn more information about documentation and reporting requirements may be found on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

SRT Communications, Inc. agrees with the listed condition. We will update and document support for future allocations of electric utility bills.

Finding #4: 47 C.F.R. § 54.7(a), FCC 15-133 and FCC 18-29 – Support Not Used for Intended Purpose of Federal Universal Service Support

CONDITION

AAD obtained and examined the Beneficiary's general ledger, continuing property records (CPR) and cost study adjustments to determine whether only costs necessary for the provision, maintenance, or upgrading of facilities were included in the account balances reported for High Cost Program purposes. The Beneficiary did not exclude 379 plant-specific and non-plant specific expense transactions totaling $188,930 that were related to sponsorships, donations, contributions, scholarships, personal expenses, entertainment or parties or other activities, gifts, membership fees/dues, penalties for late payments on debt, loans or other payments, promotional items/events related to public relations (non-product related), and non-regulated activities for a non-regulated affiliated entity as summarized in the table below:[9]

[9] Public Notice FCC 15-133 and FCC 18-29. See also 47 C.F.R. § 65.450(a); 47 U.S.C. § 254(e).

Account Description	Amount
2003 - Telecom Plant Under Construction (TPUC)	$50
6120 - General Support Expense	$237
6230 - COE Transmission	$255
6410 - Cable & Wire Facilities Expense	$6,413
6530 - Network Operating Expense	$266
6610 - Customer Services Marketing Expense	$75
6620 - Customer Operations Services Expense	$27,281
6710 - Executive Expense	$31,230
6720 - General Administrative Expense	$119,164
7300 - Non-Operating Income and Expense	$3,959
Total	**$188,930**

Because the Beneficiary did not exclude disallowed transactions, AAD concludes that the Beneficiary included costs that were not necessary for the provision, maintenance, or upgrading of facilities.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly exclude unallowable expenses from the amounts reported for High Cost Program purposes. The Beneficiary informed AAD that the transactions were included based on its understanding of the FCC rules in place at the time.[10]

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by subtracting the value of the disallowed transactions from the total amount reported by the Beneficiary in its respective accounts in its High Cost filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	$3,265
ICLS	($1,219)
SVS	$873
Total	**$2,919**

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must ensure it has an adequate system to report accurate data for High Cost Program purposes and maintain documentation to demonstrate compliance with FCC Rules and Orders. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at

[10] Beneficiary responses to audit results summary, received February 21, 2020.

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

BENEFICIARY RESPONSE

SRT Communications, Inc. agrees with the listed condition. This audit is reviewing information filed before the 2015 notice, and 2018 order on USF eligible expenses. USF filings made after the release of the notice and order have removed items described in the finding.

AAD RESPONSE

AAD clarifies that these expenses were not to be recorded in regulated accounts pursuant to the FCC's Public Notice in WC Docket Nos. FCC 15-133 and FCC 18-29 which clarified existing FCC Rules and Regulations.

Finding #5: 47 C.F.R. § 51.917(d)(ii)(A)(B) – Inaccurate Intrastate Terminating Switched Access Service Revenues

CONDITION

AAD obtained and examined the Beneficiary's billing reports and general ledger to determine whether the Beneficiary reported accurate Intrastate Terminating Switched Access Service Revenues (Intrastate Revenues) for High Cost Program purposes. The total Intrastate Revenues that were identified on the Beneficiary's billing reports and general ledger did not agree to the revenues reported by the Beneficiary for Program Year 2013-2014 as summarized below:

Intrastate Terminating Access Revenue Reported to USAC	Intrastate Terminating Access Revenue Per Beneficiary's General Ledger and Billing Report	(Under) Reported Intrastate Revenues
$384,764	$388,304	($3,540)

Because the Beneficiary's supporting documentation (the billing report and the general ledger) did not agree to what was reported, AAD concludes that the Beneficiary reported inaccurate Intrastate Revenues. The Beneficiary must report accurate Intrastate Revenues for High Cost Program purposes.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct Intrastate Revenue amount for High Cost Program purposes. The Beneficiary informed AAD that the issue occurred because of pooling system restraints for adjustments outside of reporting window.[11]

[11] Beneficiary responses to audit results summary, received February 21, 2020.

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by adding the underreported amount to the total amount reported by the Beneficiary in its respective accounts on the CAF ICC filing.[12]

Support Type	Monetary Effect
CAF ICC	$1,761[13]

RECOMMENDATION

AAD recommends that USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary must ensure it has an adequate system to maintain documentation to demonstrate compliance with FCC Rules. 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

SRT Communications, Inc. agrees with the listed condition. Due to a timing issue in the NECA system we were not able to correct the data that NECA filed with USAC, however the revenues pooled with NECA were correct. The intrastate VoIP issue was corrected and did not impact any subsequent CAF ICC filings. We will monitor changes to revenues reported outside the 24-month window in future filings.

[12] The CAF ICC program year provides for the disbursement of funds on a July to June basis, with true-up payments disbursed two years after the program year. The true-up payment for the 2013 – 2014 CAF ICC program year was disbursed from July 2015 to June 2016 (based on data submitted in June 2015) and the true-up payment for the 2014 – 2015 CAF ICC program year was disbursed from July 2016 to July 2017 (based on data submitted in June 2016). The audit period includes an examination of disbursements paid in 2016; therefore the monetary effect for this Finding accounts for the last six months of the true-up payment that occurred from January to June 2016 that corresponds to the 2013–2014 program year and the first six months of the true-up payment that occurred from July to December 2015 corresponds to the 2014 – 2015 program year.

[13] Under existing policies, High Cost Program Management to rounds down CAF ICC Support to the nearest dollar throughout the calculation. Thus, the monetary effect does not exactly equal half of the variance.

Finding #6: 47 C.F.R. § 32.2000(e)(2) – Improper Property Records

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation to determine whether the Beneficiary's continuing property records (CPRs) for its Cable and Wire Facilities (CWF) were accurate for High Cost Program purposes. The Beneficiary provided an addendum to the CPR to account for 339 CWF assets totaling $19,669,757 that were not included in the CWF CPR for both SRT (the Beneficiary) and Velva, an exchange of the acquired by the Beneficiary.[14] Because the CPRs were not updated with new plant additions on a timely basis, AAD concludes that the Beneficiary's CPRs for CWF were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to include all of its assets in the CPR for CWF for High Cost Program purposes. The Beneficiary informed AAD that the issue occurred because work orders were closed at December 31, 2014 but had not yet been entered into the CWF CPR files for 2014; although the assets were in service in 2014. In addition, the Beneficiary stated that the 2014 general ledger and applicable USF filings reflect the proper balance, and the assets were included in the CPR in the subsequent year (2015).[15]

EFFECT

There is no monetary effect for this finding. However, CPRs are an integral component of retiring assets when removed from service, transferring assets between locations, and ensuring that the general ledger accurately reflects the investment in assets that are providing service in the Beneficiary's network. While there is no monetary impact of this finding, the failure to maintain accurate CPRs that support the full amounts in the general ledger balances for plant in service accounts increases the probability for errors and/or omissions in future High Cost Program filings.

RECOMMENDATION

The Beneficiary must implement an adequate system to properly report the correct amounts 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

> SRT Communications, Inc. agrees with the listed condition. We will update Cable and Wire CPRs at year end, as soon as practicable, to include all work orders to match the plant balances.

[14] The Beneficiary acquired Velva in 2007; Velva received Safety Valve Support during the audit period.
[15] Beneficiary responses to audit inquiries, received October 23, 2018.

Finding #7: 47 C.F.R. § 36.121(c) – Improper Power and Common Equipment Allocation

CONDITION

AAD obtained and examined the Beneficiary's supporting documentation to determine whether the Beneficiary's power and common (P&C) equipment allocations were correctly calculated for High Cost Program purposes. AAD determined that the Beneficiary's calculation that was used to allocate power and common equipment among Central Office Equipment (COE) accounts was incorrect. The Beneficiary excluded some tandem switching investment from two exchanges when it calculated its P&C allocation relating to Category 2 investment. Additionally, when categorizing some generic fiber optic transmission equipment, the Beneficiary used an incorrect count of working pairs in its calculation that allocated the equipment across the COE categories. During the audit, the Beneficiary provided revised P&C equipment allocation documentation to correct the errors noted above; therefore, AAD noted the following differences between the Beneficiary's P&C equipment allocations used to report P&C equipment investment for High Cost Program filings and the Beneficiary-revised P&C equipment allocations:

COE Category (SRT & Velva Combined)	As Reported (A)	Beneficiary's Revised P&C equipment allocation (B)	Difference Over/(Under) Reported Amount (A-B)
Tandem Switching – Category 2	$2,931,652	$2,865,291	$66,361
Local Switching – Category 3	$15,990,767	$16,148,588	($157,821)
Wideband Exchange Line – Category 4.11	$9,539,605	$9,153,285	$386,320
Exchange Trunk Circuit – Category 4.12	$97,326	$97,337	($11)
Wideband Exchange Line (x\WB) – Category 4.13	$12,801,196	$13,170,602	($369,406)
Interexchange Circuit Wideband – Category 4.22	$8,753,487	$8,764,844	($11,357)
Interexchange Circuit x\WB – Category 4.23	$2,078,264	$2,071,471	$6,793
Host\Remote Message Circuit – Category 4.3	$1,309,437	$1,316,158	($6,721)

Further, as summarized in the table below, the incorrect calculation of the P&C equipment allocation resulted in subsequent incorrect adjustments for COE asset reclassification as well as for COE non-regulated investment and expense adjustments.

Account Description	As Reported (A)	Beneficiary's Revised P&C equipment allocation (B)	Difference Over/(Under) Reported Amount (A-B)
2210 - COE – Switching	($1,103,163)	($1,011,988)	($91,175)
2230 - COE – Transmission	($713,973)	($722,068)	$8,095
6210 - Switching Expense	$2,305	$2,102	$203
6230 - Transmission Expense	$161,583	$154,668	$6,915
3100-2230 - Accumulated Depreciation – COE – Switching	$1,090,098	$1,000,002	$90,096
3100-2230 - Accumulated Depreciation COE – Transmission	$201,707	$231,265	($29,558)
6560-2210 - Depreciation Expense –Switching	$4,521	$4,122	$399

6560-2230 - Depreciation Expense – Transmission	$172,616	$165,230	$7,386
2210 - COE – Switching - Velva	($3,092)	($2,829)	($253)
2230 - COE – Transmission - Velva	($60,730)	($58,253)	($2,477)
6210 - Switching Expense - Velva	($51)	($46)	($5)
6230 - Transmission Expense - Velva	($3,540)	($3,389)	($151)
3100-2210 - Accumulated Depreciation – COE – Switching - Velva	$2,183	$2,004	$179
3100-2230 - Accumulated Depreciation COE – Transmission - Velva	$16,930	$16,292	$638
6560-2210 - Depreciation Expense – Switching – Velva	($29)	($27)	($2)
6560-2230 - Depreciation Expense – Transmission - Velva	($5,749)	($5,475)	($245)

Because the Beneficiary used incorrect inputs, AAD concludes that the P&C equipment allocations were not correctly calculated.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed AAD that these issues occurred because inadvertent formula errors in Excel workbooks.[16]

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by subtracting the overstatements from and adding the understatements to the total amount reported by the Beneficiary in its respective accounts on the High Cost Program Filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	($52,911)
ICLS	$37,958
SVS	$1,246
Total	**($13,707)**

RECOMMENDATION

The Beneficiary must implement an adequate system to properly report the correct amounts 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

> SRT Communications, Inc. agrees with the listed condition. The formula errors were discovered and corrected in 2015 and subsequent USF filings.

[16] *See* Beneficiary responses to audit results summary, received February 21, 2020.

Finding #8: 47 C.F.R. § 32.2000(e)(1)(i-ii), 47 C.F.R. § 32.2210, 47 C.F.R. § 32.2410 – Inaccurate Central Office Equipment and Cable and Wire Facilities Reporting

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary reported accurate expenses, including a sample of 32 Central Office Equipment (COE) transactions totaling $5,052,291 and 5 Cable and Wire Facilities (CWF) transactions totaling $1,667,950 for High Cost Program purposes. The Beneficiary did not accurately reported its investment cost for four samples totaling $3,524,774.[17] In addition, the Beneficiary did not assign overhead to the 3 samples totaling $2,350,169, based on the actual cost to place the assets in service, rather it allocated overhead based on the assets' percentage of the total material invoice or material work order costs.[18]

Account Affected[19]	Exceptions Noted[20]	Number of Samples with Exception	Value of Samples with Exception	Unsupported Portion of Samples with Exception
2210 - Central Office – Switching	Inaccurate Cost and Quantity per Invoices	2	$65,283	($642)
2230 - Central Office – Transmission	Inaccurate Cost and Quantity per Invoices	2	$3,459,491	$1,777,742
2230 - Central Office – Transmission	Overhead Allocation Methodology	2	$1,956,261	($15,061)
2410 – Cable & Wire Facilities	Overhead Allocation Methodology	1	$393,908	($63,420)
Total		**7**	**$5,874,943**	**$1,698,619**

Further, AAD noted that one sampled COE Transmission asset totaling $1,776,738, included in the table above, represents an adjustment for an unknown group of assets as the Beneficiary booked only a total amount to the property records, no material or overheads were noted and the Beneficiary did not associate the dollar amount with any individual asset(s).[21]

Because the Beneficiary did not accurately reported its investment cost and did not assign overhead based on the actual cost to place the assets in service, AAD concludes that the Beneficiary's assets are not recorded in the proper amount in its records.

[17] 47 C.F.R. §§ 32.2000(e)(1)(i-ii, § 32.2210, 32.2410.
[18] 47 C.F.R. §§ 32.2000(e)(7)(i)(B-C), 32.2000(f)(3).
[19] 47 C.F.R. §§ 32.2210 (2014), 32.2230 (2014), 32.2410.
[20] *See supra* note 7.
[21] 47 C.F.R. § 32.2000(e)(f).

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly calculate and record its asset transactions. The Beneficiary informed AAD that the issue occurred by applying the overheads based on material costs.[22]

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by subtracting the amounts that were over reported and adding the amounts that were underreported from the amounts reported by the Beneficiary in the respective accounts in its High Cost Program filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	($50,251)
ICLS	($1,798)
Total	**($52,049)**

RECOMMENDATION

The Beneficiary must implement an adequate system to maintain property records with the level of detail compliant with Part 32 rules. 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

> SRT Communications, Inc. agrees with the listed condition. ONTs have been moved to COE transmission in subsequent USF filings. We will also review our procedures for assigning materials and overheads to work orders.

Finding #9: 47 C.F.R. § 32.2000 (g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

AAD obtained and examined the Beneficiary's depreciation schedule to determine whether the Beneficiary's depreciation and accumulated depreciation amounts were correctly calculated for High Cost Program purposes. Upon review of the documentation, AAD determined that the Beneficiary did not calculate its depreciation expense using the average monthly balance. AAD recalculated the carrier's depreciation expense by taking the average of the beginning and ending balance of each month and determined that the Beneficiary over reported or under reported its depreciation expense and accumulated depreciation amounts as listed below.

[22] Beneficiary responses to audit results summary, received February 21, 2020.

Account Description	Variance Over/(Under) Reported
3100-2110 - Accumulated Depreciation(A\D) – Land and Support Assets	($715,482)
3100-2210 - A\D - COE – Switching	$278
3100-2230 - A\D - COE – Transmission	$124,973
3100-2410 - A\D – C&WF	($470,670)
3100-2110 - A\D – Land and Support Assets - Velva	$71
3100-2210 - A\D - COE – Switching – Velva	$0
3100-2230 - A\D - COE – Transmission - Velva	($17,314)
3100-2410 - A\D – C&WF – Velva	($22,765)
6560-2110 - Depreciation Expense (D\E) – Land and Support Assets	($715,480)
6560-2210 - D\E - COE – Switching	($180)
6560-2230 - D\E - COE – Transmission	$124,871
6560-2410 - D\E – C&WF	($616,519)
6560-2110 - D\E – Land and Support Assets - Velva	$67
6560-2210 - D\E - COE – Switching - Velva	$4
6560-2230 - D\E - COE – Transmission - Velva	($17,310)
6560-2410 - D\E – C&WF – Velva	($22,776)

Because the Beneficiary miscalculated its depreciation expense and accumulated depreciation amounts, AAD concludes that its depreciation and accumulated depreciated balances were inaccurate.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed AAD that that the issue occurred because of the application of depreciation rates to previous month ending account balance.[23]

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by subtracting the overstated amounts from and adding the understated amounts to the total amount reported by the Beneficiary in its respective accounts in its High Cost Program filings.

[23] *See* Beneficiary responses to audit results summary, received February 21, 2020.

Support Type	Monetary Effect and Recommended Recovery
HCL	($253,365)
ICLS	($231,445)
SVS	($8,324)
Minimum	**($493,134)**

RECOMMENDATION

The Beneficiary must implement an adequate system to properly report the correct amounts 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

SRT Communications, Inc. agrees with the listed condition. We will calculate depreciation expense using average monthly balances in future USF filings.

Finding #10: 47 C.F.R. § 54.1305(i) – Inaccurate Loop Count Reporting

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing that was used to support the number of loop counts reported as of December 31, 2014 to determine whether the Beneficiary reported accurate loop counts for High Cost Program purposes. The Beneficiary overstated its loop counts by (a) incorrectly including subscribers with start dates after the data period; (b) improperly counting line counts differently than what is prescribed in the NECA Loop Count Guide; and (c) improperly counting lines used for non-regulated services as summarized below.

Description (SRT Only)	Loop Counts Reported	Loop Counts Supported	Variance Over/(Under) Reported	Variance Percentage
Total Loops	28,251	25,152	3,099	11%
Category 1.3 Loops	27,696	24,646	2,428	9%

Because the Beneficiary's supporting documentation did not agree to what was reported, AAD concludes that the Beneficiary reported inaccurate accurate loop counts.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct loop counts for High Cost Program purposes. The Beneficiary informed AAD that these issues occurred because inadvertent accounting clerical errors.[24]

[24] *See* Beneficiary responses to audit results summary, received February 21, 2020.

EFFECT

As summarized in the table below, AAD calculated the monetary effect for this finding by subtracting the overstated loop counts from the Total Loops and Category 1.3 Loops reported by the Beneficiary in its respective data lines on the High Cost Program Filings.

Support Type	Monetary Effect and Recommended Recovery
HCL	($1,186,947)
Total	**$($1,186,947)**

RECOMMENDATION

The Beneficiary must implement an adequate system to properly report the correct amounts 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

SRT Communications, Inc. agrees with the listed condition. The "SRT Internet" line count portion of the finding was corrected in 2015 and subsequent USF filings. We will address the remaining loop count issues in future USF filings.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2(a)-(b) (2014).	"(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. (b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions *performed by* the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions *performed by* individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services *purchased by* customers."
#2	47 C.F.R. § 54.1305(b-c) & (g-h)(2014).	"(b) Unseparated, i.e., state and interstate, gross plant investment in Exchange Line Cable and Wire Facilities (C&WF) Subcategory 1.3 and Exchange Line Central Office (CO) Circuit Equipment Category 4.13. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing. (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. (g) Unseparated gross telecommunications plant investment. This amount shall be calculated as of December 31st of the calendar year preceding each July 31st filing. (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."

Finding	Criteria	Description
#2	47 C.F.R. § 64.901(a)(3) (2014)	"(a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. (b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available."
#3	47 C.F.R. § 54.320(b) (2014)	"(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."
#3	47 C.F.R. § 32.6121(a) (2014).	"(a) This account shall include expenses associated with land and buildings (excluding amortization of leasehold improvements). This account shall also include janitorial service, cleaning supplies, water, sewage, fuel and guard service, and electrical power."
#3	47 C.F.R. § 32.6423(a) (2014).	"(a) This account shall include expenses associated with buried cable."
#3	47 C.F.R. § 32.6531(a) (2014).	"This account shall include the cost of electrical power used to operate the telecommunications network."
#4	47 C.F.R. § 54.7(a) (2014).	"(a) 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."
#4	FCC 15-133 (2015).	"Under federal law, high-cost support provided to an ETC must be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations;

Finding	Criteria	Description
		• Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and" • Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages."
#4	FCC 18-29, para. 10 (2018).	"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. Nothing we do in this Report and Order is intended to undermine our precedent."
#4	47 U.S.C. § 254(e) (2014).	"A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#4	47 C.F.R. § 65.450(a) (2014).	"(a) Net income shall consist of all revenues derived from the provision of interstate telecommunications services regulated by this Commission less expenses recognized by the Commission as necessary to the provision of these services."
#5	47 C.F.R. § 51.917(d)(ii)(A)(B) (2014)	"(d)(ii) Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in §51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in §51.909."
#6, #8	47 C.F.R. § 32.2000(e)(iii); (2); (7); (f)(3) (2014)	"(e) *Basic property records.* (1) The basic property records are that portion of the total property accounting system which preserves the following detailed information: (i) The identity, vintage, location and original cost of units of property; (ii) Original and ongoing transactional data (plant account activity) in terms of such units; and (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and (iv) maintained throughout the life of the property.

Finding	Criteria	Description
		(2) The basic property records must be: (i) Subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and (iv) maintained throughout the life of the property. (7) The basic property record components (see paragraph (c) of this section) shall be arranged in conformity with the regulated plant accounts prescribed in this section of accounts as follows: (i) The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). The continuing property records shall be maintained as prescribed in §32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives: (A) Provide for the verification of property record units by physical examination. (B) Provide for accurate accounting for retirements. (C) Provide data for use in connection with depreciation studies. (f) Standard practices for establishing and maintaining continuing property records—(1) Accounting area. (i) The continuing property record, as related to each primary plant account, shall be established and maintained by subaccounts for each accounting area. An accounting area is the smallest territory of the company for which accounting records of investment are maintained for all plant accounts within the area. Areas already established for administrative, accounting, valuation, or other purposes may be adopted for this purpose when appropriate. In no case shall the boundaries of accounting areas cross either State lines or boundaries prescribed by the Commission. (3) Methods of determining original cost of property record units. The original cost of the property record units shall be determined by analyses of the construction costs incurred as shown by completion reports and other data, accumulated in the respective construction work orders or authorizations. Costs shall be allocated to and associated with the property record units to facilitate accounting for retirements. The original cost of property record units shall be determined by unit identification or averaging as described in paragraphs (f)(3) (i) and (ii) of this section.”
#7	47 C.F.R. § 36.121(c) (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.”
#8	47 C.F.R. § 32.2210 (2014)	“(a) This account shall be used by companies to record the original cost of switching assets of the type and character detailed in Accounts 2211 through 2212.

Finding	Criteria	Description
#8	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."
#8	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."
#9	47 C.F.R. § 32.2000(g)(2)(iii) (2014)	"(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."
#10	47 C.F.R. § 54.1305(i) (2014).	"(i) 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."