High Cost and Low Income Committee

Audit Reports Briefing Book

Monday, July 26, 2021

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Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: April 2021

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
American Samoa Telecommunications Authority **Appendix A**	4	• No significant findings.	$605,370	$8,258	$8,258	N
Bluffton Telephone Company **Appendix B**	4	• <u>Indirect Costs Not Allocated to Regulated Accounts Based on Cost-Causative Linkage to Other Direct Costs</u>: The Beneficiary based the allocation of administrative charges and common expenses (indirect costs) on factors that were not cost causative.	$4,781,885	$134,405	$134,405	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Smithville Telephone Co. **Appendix C**	**7**	• No significant findings.	$16,896,950	($158,415)	$0	N
Total	**15**		**$22,284,205**	**($15,752)**	**$142,663**	

Attachment A

HC2019BE025

American Samoa Telecommunications Authority

Performance Audit on Compliance with the Federal Universal Service Fund
High Cost Support Mechanism Rules
USAC Audit No. HC 2019BE025

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MOSSADAMS

EXECUTIVE SUMMARY

March 12, 2021

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 American Samoa Telecommunications Authority (Beneficiary), study area code 673900 for disbursements of $605,370 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 (Finding or Findings) discussed in the Audit Results section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with 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

Spokane, Washington
March 12, 2021

AUDIT RESULTS

Audit Results	Monetary Effect & Recommended Recovery
Finding #1: FCC 15-133– Support Not Used for Intended Purposes: The 2016 cost study included expenses that were not related to provisioning, maintaining, or upgrading telecommunications service.	$2,594
Finding #2: 47 C.F.R. § 32.6623, 32.6512(a) - Incorrect Classification of Labor Expense: Corporate expense included labor and benefit time that was spent on customer service activities and provisioning materials and supplies.	$2,318
Finding #3: 47 C.F.R § 54.320(b) – Lack of Documentation – Assets: The Beneficiary was unable to provide documentation to substantiate the value of the transactions for three asset samples.	$2,136
Finding #4: 47 C.F.R. § 32.6112(b), 32.6114(b), 32.6512(b), 32.6534(b), 32.6535 (b), 32.2000(c)(2)(ii) – Inaccurate Expense Clearings: The Beneficiary did not clear designated expenses in accordance with Part 32.	$1,210
Total	**$8,258**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results from the Beneficiary for SAC 673900 for the High Cost Program support. 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.

Regarding Finding #1 and Finding #4, USAC Management will create a corrective action plan (C.A.P.) so that the Beneficiary may address the issues regarding is “Support not Used for Intended Purposes” and “Inaccurate Expense Clearings.” 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.

	ICLS (A)	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$2,594	$2,594	
Finding #2	$2,318	$2,318	
Finding #3	$2,136	$2,136	
Finding #4	$1,210	$1,210	
Mechanism Total	**$8,258**	**$8,258**	

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 American Samoa. The Beneficiary 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. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC 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 and 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 changes 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.

OBJECTIVE, SCOPE, AND PROCEDURES

OBJECTIVE

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

This performance audit did not constitute an audit of financial statements in accordance with Government Auditing Standards. We were not engaged to, and therefore 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 included within the scope of this audit:

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
CAF ICC	12/31/2016	12/31/2018	$486,918
ICLS	12/31/2016	12/31/2018	$118,452
Total			**$605,370**

AUDIT METHODOLOGY

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

Reconciliation

We reconciled the December 31, 2016 and December 31, 2015 trial balance accounts to the Part 36 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. Asset selections were made utilizing a random number generator from continuing property record (CPR) detail. We determined whether the Beneficiary had properly supported balances for the selected assets with 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 Beneficiary's tax-exempt status.

Expenses

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

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

Affiliate Transactions

We performed procedures to assess the reasonableness of affiliate transactions that occurred during the period under audit. These transactions involve the transfer of assets or the provision of service between the Beneficiary and the other entities owned by the American Samoan Government. We noted the Beneficiary, and associated study area, is accounted for as an operating division of the American Samoan Government and is owned by the Government entity. We judgmentally selected a sample of various transactions based on the value and volume of the transactions to determine if the transactions were recorded in accordance with 47 C.F.R. Section 32.27 and categorized in the appropriate Part 32 accounts. The following transactions were selected for testing:

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[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).

- Customer and general and administrative services (allocations of costs between operating divisions)
- Subscriber services priced at tariffed rates

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 utilizing a random number generator. Our testing of subscriber bills consisted of procedures to ensure the lines were properly classified as residential, single-line business, or multi-line business. In addition, we reconciled the revenues reported to the National Exchange Carrier Association (NECA) to the general ledger and billing support. We obtained subscriber listings and billing records to determine the lines or loops reported in the HCP filings agreed to supporting documentation. Our analysis included reviewing the listing for duplicate lines, invalid data, and nonrevenue producing lines.

Part 64 Allocations

We (1) reviewed the Beneficiary's cost apportionment methodology and assessed the reasonableness of the allocation methods and corresponding data inputs used to calculate the factors, (23) 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.

COE and CWF Categorization

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

Revenue Requirement

We recalculated the Beneficiary's revenue requirement using our cost allocation software program and reviewed the calculation of revenue requirement including the applications of Part 64, 36, and 69 for reasonableness. In addition, we traced cost adjustments that the Beneficiary had not recorded in the general ledger to supporting documentation and reviewed hem 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: 47 C.F.R. §54.7; FCC 15-133 Public Notice – Support Not Used for Intended Purposes

CONDITION

We obtained and reviewed general ledger details of expense accounts for the year ended December 31, 2016 to determine whether the Beneficiary used its support only for its intended use (the provision, maintenance, or upgrading facilities and services in its HCP filings. We extracted expense details using software to identify terms included in the general ledger entries that were specifically emphasized in FCC 15-133. Based on this review, we identified expenses related to holiday gifts, other gifts, entertainment, and donations, totaling $13,592 that the Beneficiary included as regulated expenses in its HCP filings. Under the program rules 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]

EFFECT

As a result of the exception[3] identified above, the Beneficiary overstated its regulated expenses by $13,592. To calculate the impact on ICLS, we decreased the applicable expenses by $13,592 in the 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 $2,594. There was no impact to CAF ICC disbursements.

Support Type	Monetary Effect & Recommended Recovery
ICLS	$2,594
Total	**$2,594**

[2] *All Universal Service High-Cost Support Recipients Are Reminded That Support Must Be Used For Its Intended Purpose*, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (2015) (*Intended Use Public Notice*).
[3] In this 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.

RECOMMENDATION

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

We recommend that the Beneficiary review its policies and procedures to identify all expenses that are disallowed and remove these expenses from the cost study and HCP Forms. 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

We agree and concede to these findings. Our procedures will be revised to identify all disallowed expenses for exclusion from our cost study.

Finding #2: 47 C.F.R. § 32.6623, and 47 C.F.R. § 32.6512 – Incorrect Classification of Labor and Benefit Expenses as Corporate Expense

CONDITION

We obtained and reviewed the Beneficiary's employee time sheets, check stubs, payroll registers, labor distributions by account, and formal employee job descriptions for a random sample selection of 40 employees. We found that three employees coded time to corporate expenses (account 6720) when their actual job functions were substantially focused on customer service (account 6620) or materials and supplies provisioning (account 6512). The allocation of time to the proper expense accounts based on job functions would have resulted in a reduction to Account 6720 expense of $21,585, an increase to Account 6620 (Customer Services expense) of $6,653 and an increase to Account 6512 (Provisioning expense) of $14,932.

CAUSE

The process to review and approve labor coding did not identify and adjust expense accounts to classify the activities of the Beneficiary's employees in the correct Part 32 expense accounts.

EFFECT

The exception identified above resulted in overstatement of corporate expense of $21,585, understatement of customer service expense of $6,653, and understatement of plant nonspecific expense of $14,932, which impacted ICLS disbursements. We adjusted the balances in the aforementioned accounts in the HCP filings to calculate the impact on 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 $2,318. There was no impact to CAF ICC disbursements.

Support Type	Monetary Effect & Recommended Recovery
ICLS	$2,318
Total	**$2,318**

RECOMMENDATION

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

We recommend that the Beneficiary provide training to its managers and employees to ensure time is recorded to the proper Part 32 account based on their actual job functions. 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

We will reinforce timekeeper and manager training to accurately code time worked to the appropriate general ledger accounts.

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

CONDITION

We selected a random sample of 40 assets and obtained and reviewed the Beneficiary's COE and CWF CPR supporting documentation such as work order details, third-party vendor invoices, materials used sheets, and time and payroll documentation for labor related costs, to determine whether the asset balances were properly supported. The Beneficiary was not able to provide supporting documentation for three asset additions totaling $90,463.

CAUSE

The Beneficiary did not have a system to maintain adequate documentation to support accurate data used for High Cost Program purposes.

EFFECT

The exception identified above resulted in an overstatement of COE assets of $14,880 and CWF assets of $75,583, which impacted ICLS disbursements. To calculate the impact to ICLS disbursements for the finding noted above, we reduced the COE and CWF asset balances included in the Beneficiary's cost study and 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 $2,136. There was no impact to CAF ICC disbursements.

Support Type	Monetary Effect & Recommended Recovery
ICLS	$2,136
Total	**$2,136**

RECOMMENDATION

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

We recommend the Beneficiary establish a process to maintain supporting documentation for its COE and CWF asset balances to verify that the asset balances report for High Cost Program purposes are accurate. 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

We concede to the above findings. Transactions of this particular nature are no longer posted as the necessary accounting modules are now fully utilized.

Finding #4: 47 C.F.R. § 32.6112(b), 32.6114(b), 32.6512(b), 32.6534(b), 32.6535 (b), 32.2000(c)(2)(ii) – Inaccurate Expense Clearings

Condition

We obtained the general ledger detail for the Beneficiary's expense accounts and noted that no credits had been recorded to accounts specifically identified in Part 32 as required clearings to other accounts. The Beneficiary did not allocate Motor Vehicle, Tools and Other Work Equipment, Provisioning, Plant Operation Administration, and Engineering expenses from their respective expense accounts to the designated plant under construction or plant specific expense accounts. Specifically, there was approximately $146,569 of expense that should have been allocated to other plant specific accounts and $1,551 of expense that should have been allocated to plant under construction based on construction labor hours as detailed below:

Account[4]	Increase (Decrease)
6112	($100,283)
6114	(46,803)
6512	(174)
6534	(418)

[4] *See* 47 C.F.R. §§ 32.6112 (2016), 32.6114 (2016), 32.6121 (2016), 32.6212 (2016), 32.6311 (2016), 32.6341 (2016), 32.6351 (2016), 32.6411 (2016), 32.6421 (2016), 32.6422 (2016), 32.6512 (2016), 32.6534 (2016), 32.6535 (2016) and 32.2003 (2016).

6535	(442)
6121	29,172
6212	12,658
6311	11,073
6341	15,018
6351	2,337
6411	25,597
6421	24,268
6422	26,446
2003	1,551

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 of $1,551, an overstatement of plant specific expenses of $517 and plant nonspecific expenses of $1,034, which impacted ICLS disbursements. To calculate the impact to ICLS disbursements for the finding noted above, we obtained the Beneficiary's labor distribution for 2016 and recalculated the expense clearing based on a ratio of labor hours by expense and plant under construction categories to total expenses recorded in the identified account and adjusted the applicable expense and rate base 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 $1,210. There was no impact to CAF ICC disbursements.

Support Type	Monetary Effect & Recommended Recovery
ICLS	$1,210
Total	**$1,210**

RECOMMENDATION

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

The Beneficiary should 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

We will review the clearing process and proceed as required.

CRITERIA

Finding	Criteria	Description
Finding #1	*FCC Reminds ETCs of High-Cost Support Requirements*, WC Docket No. 10-90, Public Notice, FCC 15-133, 30 FCC Rcd 11821 (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.
Finding #2	47 C.F.R. § 32.6623 (2016)	(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.
Finding #2	47 C.F.R § 32.6512(a) (2016)	This account shall include costs incurred in provisioning materials and supplies, including office supplies. This includes receiving and stocking, filling requisitions from stock, monitoring and replenishing stock levels, delivery of material, storage, loading or unloading and administering the reuse or refurbishment of material. Also included are adjustments resulting from the periodic inventory of materials and supplies.
Finding #3	47 C.F.R. § 54.320(b) (2016)	(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.
Finding #4	47 C.F.R. § 32.6112(b) (2016)	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.

Finding #4	47 C.F.R. § 32.6114(b) (2016)	Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.
Finding #4	47 C.F.R. § 32.6512(b) (2016)	Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge.
Finding #4	47 C.F.R. § 32.6534(b) (2016)	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 #4	47 C.F.R. § 32.6535(b) (2016)	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 #4	47 C.F.R. § 32.2000(c)(2)(ii) (2016)	(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. § 32.6121 (2016)	(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.
Finding #4	47 C.F.R. § 32.6212 (2016)	(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. and electro-mechanical switching. (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.

Finding #4	47 C.F.R. § 32.6311 (2016)	This account shall include expenses associated with station apparatus. Expenses associated with company internal use communication equipment shall be recorded in Account 6123, Office Equipment Expense.
Finding #4	47 C.F.R. § 32.6341 (2016)	This account shall include expenses associated with large private branch exchanges. Expenses associated with company internal use communication equipment shall be recorded in Account 6123, Office Equipment Expense.
Finding #4	47 C.F.R. § 32.6351 (2016)	This account shall include expenses associated with public telephone terminal equipment.
Finding #4	47 C.F.R. § 32.6421 (2016)	(a) This account shall include expenses associated with aerial cable. (b) Subsidiary record categories shall be maintained as provided in §32.2421(a) of subpart C.
Finding #4	47 C.F.R. § 32.6422 (2016)	(a) This account shall include expenses associated with underground cable. (b) Subsidiary record categories shall be maintained as provided in §32.2422(a) of subpart C.

Attachment B

HC2019BE020

Bluffton Telephone Company

Performance Audit on Compliance with the Federal Universal Service Fund
High Cost Support Mechanism Rules
USAC Audit No. HC2019BE020

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MOSSADAMS

EXECUTIVE SUMMARY

February 10, 2021

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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 Bluffton Telephone Company (Beneficiary), study area code 240512 for disbursements of $4,781,885 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.

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

We may have omitted certain information from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations.

Moss Adams intends this report 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. Note: this report is not confidential and may be released to a requesting third party.

Moss Adams LLP

Spokane, Washington
March 29, 2021

AUDIT RESULTS

Audit Results	Monetary Effect & Recommended Recovery
Finding #1: 47 C.F.R § 64.901(b)(3)(ii) – Indirect Costs Not Allocated to Regulated Accounts Based on Cost-Causative Linkage to Other Direct Costs: The Beneficiary based the allocation of administrative charges on factors that were not cost causative.	$124,297
Finding #2: 47 C.F.R § 64.901(b) – Improper Inclusion of Non-Regulated Amounts: The Beneficiary included non-regulated costs in account balances reported for High Cost Program purposes.	$10,532
Finding #3: 47 C.F.R § 54.320(b) – Lack of Documentation – Assets: The Beneficiary was unable to provide documentation to substantiate the value of the transactions for three Cable and Wire Facilities (CWF) samples.	$2,629
Finding #4: 47 C.F.R § 54.1305(i) – Inaccurate Loop Count Reporting: Auditor noted differences between subscriber listing and Total Loops and Category 1.3 Loops reported for HC Program purposes.	($3,053)
Total	**$134,405**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery, from the Beneficiary for SAC 240512, for the High Cost Program support amount noted in the table above. Note: In the event that the total monetary effect and recovery results in an underpayment, USAC's High Cost Program management will not pay additional support. The Beneficiary must implement policies and procedures necessary to ensure compliance 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.

As a result of Finding #3, discussed in detail below, USAC Management will place the Beneficiary on a corrective action plan (C.A.P.) to address the Lack of Documentation - Assets. High Cost will issue a notification letter requesting the Beneficiary report to HC management how it plans to improve its process to maintain adequate documentation. This must be submitted to High Cost within 60 days from the date of the notification letter.

	HCL (A)	ICLS (B)	USAC Recovery Action (A) + (B) = (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$197,402	($73,105)	$124,297	
Finding #2	$8,237	$2,295	$10,532	
Finding #3	$1,951	$678	$2,629	
Finding #4	$($3,112)	$59	($3,053)	
Mechanism Total	$204,478	($70,073)	$134,405	

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based, eligible telecommunications carrier (ETC) that provides telecommunications services, including local service to residential and business customers residing, in areas of southern South Carolina. Bluffton is a wholly owned subsidiary of Hargray Communications Group, Inc (HCG). HCG also owns Hargray Telephone Company, Inc. (HTC), Hargray of Georgia, Inc., and Low Country Carriers, Inc. These entities provide telecommunication services throughout South Carolina and Georgia.

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. USAC administers the federal Universal Service Fund (USF) - 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 and 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 changes 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.

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 the Federal Communications Commission's Orders governing federal Universal Service Support for the HCP relative to the disbursements for the 12-month period ended December 31, 2018.

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

SCOPE

The following chart summarizes the 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	$448,430
High Cost Loop (HCL)	12/31/2016	12/31/2018	$4,187,909
Interstate Common Line Support (ICLS)	12/31/2016	12/31/2018	$145,546
Total			**$4,781,885**

AUDIT METHODOLOGY

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

Reconciliation

We reconciled the December 31, 2016 and December 31, 2015, trial balance accounts to the Part 36 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. In asset selections, we utilized a random number generator from continuing property record (CPR) detail. We assessed whether the Beneficiary had properly support balances for the audit-selected assets with 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 HCLS. We made payroll selections from a listing of employees. We agreed the amounts from the employee paystubs to supporting documentation, such as time sheets, labor distribution reports, approved pay rates, and verified that the costs were coded to the proper Part 32 account. We reviewed benefits and clearings for compliance with Part 32. We made other disbursement selections from accounts payable transactions and agreed amounts to supporting documentation, reviewing for proper coding under Part 32. We selected a sample of manual journal entries to ensure reclassifications between expense accounts were appropriate and reasonable. 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. We noted the Beneficiary is wholly-owned by Hargray Communications Group, Inc. (Hargray[2]). The Beneficiary entered into the following transactions with its affiliates, HCG and HTC, during the period under audit:

- Administrative services charges priced at fully distributed cost
- Shared expenses priced at fully distributed cost

We noted the Beneficiary affiliate transactions involved the transfer of assets or the provision of service between the Beneficiary, and HTC and HCG. We judgmentally selected a sample of various transactions between the Beneficiary and Hargray to determine whether the Beneficiary had recorded the transactions noted above were in accordance with 47 C.F.R. section 32.27 and had categorized the transaction in the appropriate Part 32 accounts.

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 utilizing a random number generator 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 re 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 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.

[2] FCC 18-62 does not apply to the period under audit as it was released on May 11, 2018 and the affiliate transactions subject to procedures occurred in 2016.

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 reviewed power and common allocation and remotely viewed via video call a judgmentally selected sample of COE assets and tested route distances of CWF for reasonableness.

Revenue Requirement

We recalculated the Beneficiary's revenue requirement using our cost allocation software program and reviewed the calculation of revenue requirement including the applications of Part 64, 36, and 69 for reasonableness. In addition, we traced cost adjustments that the Beneficiary had 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 FCC's orders governing federal Universal Service Support applicable to the disbursements made from the HCP during the year ended December 31, 2018.

Finding #1: 47 C.F.R. § 64.901(b)(3)(ii) – Indirect Costs Not Allocated to Regulated Accounts Based on Cost-Causative Linkage to Other Direct Costs

CONDITION

We obtained and reviewed the Beneficiary's affiliate transaction calculations for administrative charges and common expenses (indirect costs), which are costs incurred by the Beneficiary's parent company owner for the benefit of the parent company's affiliates. The Beneficiary's calculations included documentation supporting the development of allocation factors used to allocate indirect costs from the parent company to the Beneficiary and its affiliates. The documentation demonstrated that the parent company allocates indirect costs to the affiliates based on an average of multiple allocation factors applied to its expenses. We identified the following attributes utilized in the development of the indirect cost allocation factors:

1) Employee counts per affiliate entity as a percent of total employees for the group
2) Plant in service per affiliate entity as a percent of total plant in service for the group
3) Operating margin per affiliate entity as a percent of total operating margin for the group
4) Access lines per affiliate entity as a percent of total access lines for the group

5) Revenue per affiliate entity as a percent of total revenue for the group.

Based on our review, the Beneficiary used operating margin and revenue in the development of its indirect cost allocation, which are not cost-causative. Had the Beneficiary exclusively used cost-causative attributes in the development of its indirect cost allocation, its 2016 regulated expense accounts would have increased (decreased) as indicated below:

Regulated Account[3]	Increase (Decrease)
61210 (Acct 6121)	($9,807)
61240 (Acct 6124)	(90,565)
65320 (Acct 6532)	(153,763)
65330 (Acct 6533)	(107,719)
65341 (Acct 6534)	(22,124)
65352 (Acct 6535)	(16,705)
66120 (Acct 6611)	892,826
66130 (Acct 6613)	(890,739)
66230 (Acct 6623)	(97,421)
67240 (Acct 6720)	41,239
67284 (Acct 6720)	481,899
72400 (Acct 7240)	(39,893)
Total	**($17,157)**

CAUSE

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

EFFECT

The exception[4] identified above resulted in an overstatement of regulated expenses of $17,157, which impacted HCL and ICLS disbursements.[5] To calculate the impact to HCL and ICLS disbursements for the finding noted above, we removed the operating margin and revenue components from the Beneficiary's indirect cost allocation computation, which increased (decreased) the regulated expenses accounts by the amounts listed above in the Beneficiary's cost study and HCP filings. As

[3] *See* 47 C.F.R. §§ 32.6121 (2016), 32.6124 (2016), 32.6532 (2016), 32.6533 (2016), 32.6534 (2016), 32.6535 (2016), 32.6611 (2016), 32.6613 (2014), 32.6623 (2016), 32.6720 (2016), and 32.7240 (2016).

[4] 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.

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

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 $124,297:

Support Type	Monetary Effect & Recommended Recovery
HCL	$197,402
ICLS	($73,105)
Total	**$124,297**

RECOMMENDATION

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

We recommend that the Beneficiary implement policies and procedures to ensure it has an adequate system in place to allocate indirect costs between affiliated entities based on cost-causative linkages to other direct costs. Further, the Beneficiary may learn more about the reporting requirements and record retention policies on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Bluffton Telephone Co. (BTC) will make the proposed change prospectively and is willing to make historic changes as far back as NECA's 24-month window will allow. BTC objects to the recommended refund for because the recommendation is subjective and runs counter to previous guidance from high cost auditors and because a refund for BTC ignores the greater settlement increase that would be realized by Hargray Telephone Co. (HTC), an affiliate also receiving cost-based support.

As part of a 2009 OIG high cost audit, Hargray developed the current service charge process. The original process used five (5) factors, employees, plant in service, margin, access lines, and revenues.

McBride, Lock & Associates noted the following in their final report:

> This method considered that management fees would be allocated based on the expenses of the holding company with an additional rate of return of 11.25 percent of the holding company's rate base. The management fees would then be allocated to the subsidiaries based on an average of relative employee count, plant, property and equipment, profit margin, access lines and revenues.

Again, Hargray does not object to prospective use of a revised methodology, but objects to a retroactive refund due to its use of a method previously approved by high cost auditors.

USAC has calculated the impact on HTC and determined that this change would increase HTC's CAF-BLS settlements by $579,115 and High Cost Loop Support (HCLS) by $585,811. It would not be equitable to ignore a $1,164,926 increase to HTC settlements and require BTC to refund the $124,297 indicated above.

AUDITOR RESPONSE

The Beneficiary has stated that it objects to the recommended recovery because "the recommendation is subjective and runs counter to previous guidance received." We must audit consistent with the FCC's rules and do not have authority to waive the monetary impact associated with findings. The guidance received by the Beneficiary is contrary to 47 C.F.R. § 64.901(b)(3)(ii), which states that when direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) or a general allocator. Because the Beneficiary used profit margins and revenues, which are not considered cost-causative linkages, to allocate indirect expenses from the parent to the affiliates, the finding remains unchanged. To the extent that the Beneficiary disagrees, it may appeal the audit decision with USAC. If the USAC appeal is denied, the Beneficiary can appeal to the FCC. We note that Hargray Telephone's support is not within the scope of this audit. If the Beneficiary believes that adjustments to its settlements should be made as a result of the outcome of the audit, the Beneficiary must contact NECA to discuss this issue.

Finding #2: 47 C.F.R. § 64.901(b) – Improper Inclusion of Non-Regulated Amounts

CONDITION

We obtained worksheets from the Beneficiary that it used to calculate its 2016 Part 64 adjustments to remove the nonregulated portion of rate base accounts from its regulated cost study balances. We reviewed Part 64 adjustments and found that the Beneficiary did not remove nonregulated portions of customer deposits and inventory from its regulated cost study balances, which resulted in an overstatement of inventory of $174,751 and an overstatement of customer deposits of $4,125.

CAUSE

The process to prepare, review, and approve the 2016 cost study did not identify and correct the error in the adjustment to remove nonregulated customer deposits and inventory.

EFFECT

The exception identified above resulted in an overstatement of customer deposits and inventory assets, which impacted HCL and ICLS disbursements. To calculate the impact to HCL and ICLS disbursements for the finding noted above, we reduced customer deposits and inventory balances using the Beneficiary's general non-regulated allocation factor and included the revised balances for inventory and customer deposits in the Beneficiary's cost study balances and HCP filings. As summarized below, we estimate the monetary impact of this finding, by fund, relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment of $10,532:

Support Type	Monetary Effect & Recommended Recovery
HCL	$8,237
ICLS	$2,295
Total	**$10,532**

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

Hargray agrees with the finding and recommendation. Hargray will make changes to future cost studies to remove non-regulated inventory amounts.

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

CONDITION

We obtained and reviewed from the Beneficiary cable and wire facilities (CWF) CPR additions support such as work order detail, third-party vendor invoices, materials used sheets, as well as, time and payroll documentation for labor related costs to determine whether the Beneficiary maintained documents to properly support the asset balances. The Beneficiary was not able to provide supporting documentation for four CWF asset additions totaling $43,907.

CAUSE

The Beneficiary did not have a system to maintain adequate documentation to support accurate data used for High Cost Program purposes.

EFFECT

The exception identified above resulted in an overstatement of CWF assets, which impacted HCL and ICLS disbursements. To calculate the impact to HCL and ICLS disbursements for the finding noted above, we reduced the CWF asset balance included in the Beneficiary's cost study balances reported in its HCP filings by $43,907. As summarized below, we estimate the monetary impact, by fund, of this finding, relative to disbursements for the 12-month period ended December 31, 2018, to be an overpayment of $2,629:

Support Type	Monetary Effect & Recommended Recovery
HCL	$1,951
ICLS	$678
Total	**$2,629**

RECOMMENDATION

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

We recommend the Beneficiary establish a process to maintain supporting documentation for CWF asset balances to verify that the asset balances report for High Cost Program purposes are accurate. 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

At the time these assets were placed in service, Hargray was operating under different management and under different processes and procedures. The documentation consists of paper files and is subject to human errors.

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

CONDITION

We obtained and examined the subscriber listing that the Beneficiary provided to substantiate the loop count it reported for High Cost Program purposes, and determined that the Beneficiary overstated its 1.3 loops and total loops by seven in its 2017-1 HCL annual filing.

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 overstatement of working loops included in the Beneficiary's 2017-1 HCL filing. We calculated the impact to HCL and ICLS disbursements by reducing the number of loops reported in the Beneficiary's HCP filings by seven. As summarized below, we estimate the monetary impact, by fund, of this finding, relative to disbursements for the 12-month period ended December 31, 2018, to be an underpayment of $3,053:

Support Type	Monetary Effect & Recommended Recovery
HCL	($3,112)
ICLS	$59
Total	**($3,053)**

RECOMMENDATION

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

Hargray agrees with the finding and recommendation. We are in the process of implementing new OSS/BSS systems and believe that these new systems will eliminate this occurrence.

CRITERIA

Finding	Criteria	Description
Finding #1 and #2	47 C.F.R. § 64.901(b)(3)(ii)(2016)	(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.

Finding	Criteria	Description
Finding #1	47 C.F.R. § 32.6121 (2016)	(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.
Finding #1	47 C.F.R. § 32.6124 (2016)	This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also §32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.
Finding #1	47 C.F.R. § 32.6532 (2016)	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.
Finding #1	47 C.F.R. § 32.6533 (2016)	This account shall include costs incurred in testing telecommunications facilities from a testing facility (test desk or other testing system) to determine the condition of plant on either a routine basis or prior to assignment of the facilities; receiving, recording and analyzing trouble reports; testing to determine the nature and location of reported trouble condition; and dispatching repair persons or otherwise initiating corrective action. (Note also §32.5999(b)(3) of this subpart.)
Finding #1	47 C.F.R. § 32.6534 (2016)	(a) This account shall include costs incurred in the general administration of plant operations. This includes supervising plant operations (except as specified in §32.5999(a)(3) of this subpart; planning, coordinating and monitoring plant operations; and performing staff

Finding	Criteria	Description
		work such as developing methods and procedures, preparing and conducting training (except on-the-job training) and coordinating safety programs. (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 #1	47 C.F.R. § 32.6611 (2016)	This account shall include: (a) Costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels. (b) Costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.
Finding #1	47 C.F.R. § 32.6613 (2016)	This account shall include costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes nonproduct-related advertising, such as corporate image, stock and bond issue and employment advertisements, which shall be included in the appropriate functional accounts.
Finding #1	47 C.F.R. § 32.6623 (2016)	(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;

Finding	Criteria	Description
		(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.
Finding #1	47 C.F.R. § 32.6720 (2016)	This account shall include costs incurred in the provision of general and administrative services as follows: (a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants. (b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis. (c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities

Finding	Criteria	Description
		management, debt trust administration, corporate financial planning and analysis, and internal cashier services. (d) Maintaining relations with government, regulators, other companies and the general public. This includes: (1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses); (2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits; (3) Performing public relations and non-product-related corporate image advertising activities; (4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and (5) Administering investor relations. (e) Performing personnel administration activities. This includes: (1) Equal Employment Opportunity and Affirmative Action Programs; (2) Employee data for forecasting, planning and reporting; (3) General employment services; (4) Occupational medical services; (5) Job analysis and salary programs; (6) Labor relations activities;

Finding	Criteria	Description
		(7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs; (8) Personnel policy development; (9) Employee communications; (10) Benefit administration; (11) Employee activity programs; (12) Employee safety programs; and (13) Nontechnical training course development and presentation. (f) Planning and maintaining application systems and databases for general purpose computers. (g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses. (h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims. (i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements.

Finding	Criteria	Description
		(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.
Finding #1	47 C.F.R. § 32.7240 (2016)	(a) This account shall be charged and Account 4080, Other Taxes—Accrued, shall be credited for all taxes, other than Federal, state and 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.

Finding	Criteria	Description
		(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.
Finding #3	47 C.F.R. § 54.320(b) (2016)	(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.
Finding #4	47 C.F.R. § 54.1305 (i) (2016)	(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 C

HC2019BE013

Available For Public Use

Smithville Telephone Co.
Audit ID: HC2019BE013
(SAC No.: 320818)

Performance audit for the Universal Service High Cost Program Disbursements made during the twelve-month period ended December 31, 2017

Prepared for: Universal Service Administrative Company

As of Date: March 4, 2021

KPMG LLP
800 S. Gay St, Suite 910
Knoxville, TN 37929

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KPMG LLP
Suite 910
800 South Gay Street
Knoxville, TN 37929-9729

EXECUTIVE SUMMARY

March 4, 2021

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 Smithville Telephone Co.'s Study Area Code ("SAC") No. 320818 ("Smithville" or "Beneficiary") for disbursements, of $16,896,950 made from the Universal Service High Cost Program ("HCP") during the twelve-month period ended December 31, 2017. Our work was performed during the period from December 04, 2019 to March 4, 2021, and our results are as of March 4, 2021.

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 $16,896,950, made from the HCP during the twelve-month period ended December 31, 2017. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As our report further describes, KPMG identified seven findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the HCP for the twelve-month period ended December 31, 2017 were $158,415 lower than they would have been had the amounts been reported properly.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated March 4, 2021.

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
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF ICC	Connect America Fund Intercarrier Compensation
COE	Central Office Equipment
CPR	Continuing Property Record
ETC	Eligible Telecommunications Carriers
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
GSF	General Support Facilities
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
MUS	Monetary Unit Sampling
NECA	National Exchange Carrier Association
SAC	Study Area Code
SLC	Subscriber Line Charge
SNA	Safety Net Additive
Smithville	Smithville Telephone Co.
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
TPUC	Telecommunications Plant Under Construction
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery[1]
HC2019BE013-F01: Improper Distribution of Overhead Amounts – The Beneficiary inappropriately cleared specific overhead expense amounts to ineligible and/or inaccurate expense accounts.	$ 68,500
HC2019BE013-F02: Improper Inclusion of Non-Regulated Amounts – The Beneficiary did not accurately allocate specific operating expenses between regulated and non-regulated activities, and between related affiliates.	$ 20,093
HC2019BE013-F03: Lack of Supporting Documentation for Assets – The Beneficiary was unable to provide sufficient supporting documentation for one of the assets selected for testing.	$ 4,581
HC2019BE013-F04: Inaccurate Affiliate Transaction – The Beneficiary did not accurately record the transfer of an asset to a non-regulated affiliate. Additionally, the Beneficiary did not account for proper treatment of leases between its affiliate.	$ 3,760
HC2019BE013-F05: Inaccurate Accounting Period – The Beneficiary did not properly account for an expense in the correct accounting period.	$ 3,641
HC2019BE013-F06: Inaccurate Depreciation Calculation – The Beneficiary did not accurately report accumulated depreciation and depreciation expenses; and used month start balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules.	($ 50,867)
HC2019BE013-F07: Inaccurate Revenues – The Beneficiary did not accurately record Multi-Line Business Revenue.	($ 208,123)
Total Net Monetary Effect	**($ 158,415)**

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

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 320818 in the amount noted in the table 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.

Regarding Finding #4 and Finding #7, USAC Management requires the Beneficiary to be placed on a corrective action plan (C.A.P.) to address the Inaccurate Affiliate Transaction and Inaccurate Revenues. 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.

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)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$50,566	$17,934	$68,500	
Finding #2	$20,701	($608)	$20,093	
Finding #3	$3,214	$1,367	$4,581	
Finding #4	$4,009	($249)	$3,760	
Finding #5	$4,073	($432)	$3,641	
Finding #6	($30,322)	($20,545)	($50,867)	
Finding #7		($208,123)	($208,123)	
Mechanism Total	**$52,241**	**($210,656)**	**($158,415)**	

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.

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.

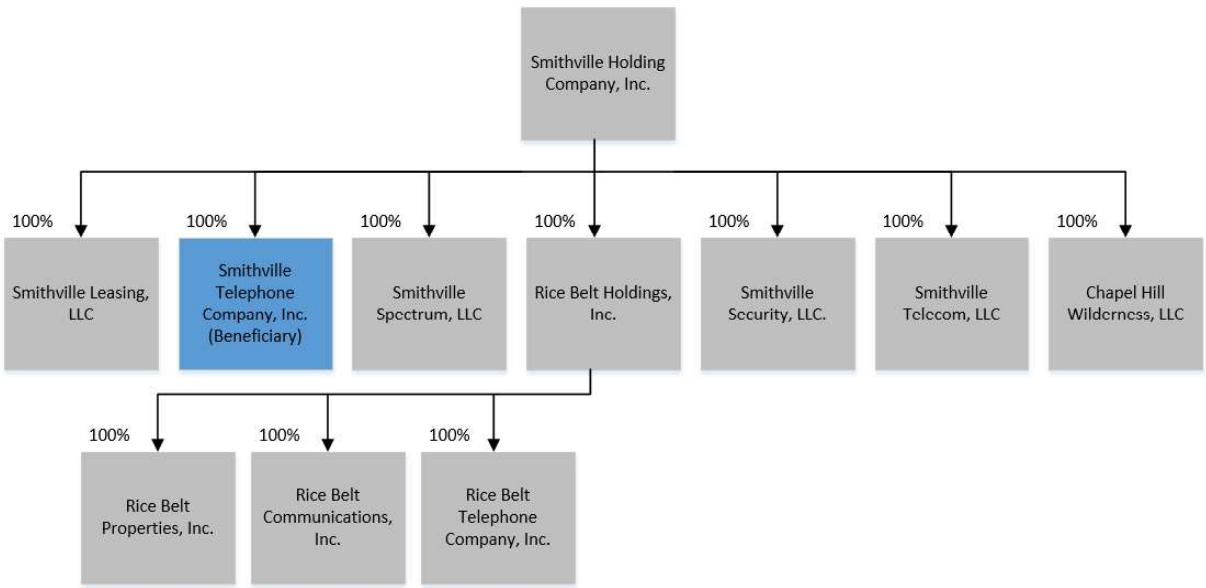
The High Cost Support Mechanism, also known as the HCP, ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas, regardless of location or economic strata. 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 $16,896,950, made from the HCP during the twelve-month period ended December 31, 2017.

Beneficiary Overview
Smithville Telephone Co. (SAC No. 320818), the subject of this performance audit, is an Indiana registered S-Corp, is a rural ILEC located in Ellettsville, Indiana. They own and operate 12 exchanges that serve over 19,000 customers throughout Southern Indiana by providing long distance, cable, internet and video services to its customers.

Smithville Holding Company, Inc. wholly-owns Smithville Telephone Co., the regulated entity. The Beneficiary, along with other affiliates, provides local access, long distance, internet, and video services and telecommunications equipment to its customers. Smithville Holdings does not directly provide domestic telecommunication services, however the Smithville Group of Companies consists of 11 Regulated and Non-Regulated entities. See organizational chart below:



In the table below, we show the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2017 by fund type:

High Cost Support	Disbursement Amount
Connect America Fund (CAF) Broadband Loop Support (BLS)	$ 8,757,432
Connect America Fund (CAF) Intercarrier Compensation (ICC)	$ 676,698
High Cost Loop (HCL)	$ 7,233,254
Interstate Common Line Support (ICLS)	$ 229,566
Total	**$ 16,896,950**

Source: USAC

The High Cost support received by the Beneficiary during the twelve-month period ended December 31, 2017, was based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2016-1 HCL Form, based on the twelve-month periods ended December 31, 2015, respectively,
- 2015 FCC Form 509, based on calendar year 2015 data, and

- 2016 CAF ICC Tariff Review Plan (TRP), based on program year 2015 data

The above referenced 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 $16,896,950, made from the HCP during the twelve-month period ended December 31, 2017.

SCOPE

The scope of this performance audit included, but was not limited to, review of HCP Forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the HCP Forms or other correspondence, and evaluation of disbursement amounts made by the Beneficiary or potentially due to the Beneficiary. The scope of our work was 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, 2017, 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, 2017.

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

1. General Procedures
2. Materiality Analysis
3. Reconciliation
4. Assets
5. Expenses
6. HCP Eligibility Forms
7. COE Categorization
8. C&WF Categorization
9. Overheads
10. Taxes
11. Part 64 Cost Allocations
12. Affiliate Transactions

[2] If exceptions were noted in areas other than the 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.

13. Revenues, Subscriber Listings and Billing Records
14. Revenue Requirement

PROCEDURES

1. General Procedures

KPMG obtained and examined the Eligible Telecommunications Carriers (ETC) designation order to assess 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 assess 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 applicable HCP Forms, we obtained the forms submitted for the period ended December 31, 2015, input the information into KPMG's HCP models, and ran a 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 2015 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 also reconciled the trial balances for the twelve-month period ended December 2015 to both the Part 64 cost allocation study inputs and to the 2016-1 HCL Form. We obtained explanations for any reconciling differences.

4. Assets

KPMG utilized a monetary unit sampling[3] methodology to select asset samples from material accounts identified in the relevant HCP Forms. Asset selections were made from GL details, and material accounts included COE, C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll documentation for labor-related costs; agreed dollar amounts charged to the third-party invoices and verified proper Part 32 categorization; and validated the physical existence of selected assets.

KPMG utilized the Asset GL details from January 1, 2009 onwards to make our sample selections. The Beneficiary did not readily have available CPR details for COE and C&WF assets prior to December 31, 2015 that would assist in determining acquisition date and subsequent sample selection. GL details covered approximately 73% of the gross book value of the material CPR asset account balances as of December 31, 2015.

5. Expenses

KPMG utilized a monetary unit sampling methodology to select expense samples including payroll from material operating expense accounts identified in the relevant HCP Forms. Expense amounts were agreed to the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and

[3] Monetary unit sampling (MUS) is a random-based sampling approach.

examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. For periods corresponding to HCL Forms 2017-1 the Beneficiary has exceeded allowable Corporate Operations Expense Caps by $2,300,468.

6. **HCP Eligibility Forms**

   For the relevant HCP Forms (HCL, ICLS/CAF BLS, and CAF ICC) completeness of reported accounts were 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 allocations, 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. **Overheads**

   KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2015. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

10. **Taxes**

    KPMG determined the tax filing status for the Beneficiary as an S-Corp based on its Federal Income Tax Form 1120S, "U.S. Income Tax Return for an S Corporation". We obtained and reviewed the form, and noted the Beneficiary is not required to pay federal or state income taxes due to its filing status as an S-Corp.

11. **Part 64 Cost Allocations**

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

12. **Affiliate Transactions**

    KPMG performed procedures to assess the reasonableness of affiliate transactions for customer billing, long distance services and vehicle transfers among other things that occurred during January 1, 2015 to December 31, 2015. 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 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 47 C.F.R. Section 36.2 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 assess that the number and type of lines reported in the HCP filings agreed to underlying support documentation that subscriber listings did not include duplicate lines, invalid data, or non-revenue producing or non-working loops, and that lines were properly classified as residential/single-line business or multi-line business.

14. Revenue Requirement

KPMG reviewed the calculation of the Beneficiary's revenue requirement, including assessing the reasonableness and application of Part 64 cost allocation, Part 36 and Part 69 separations and other cost study adjustments utilized in the calculation of the common line revenue requirement. KPMG obtained the projected data reported on FCC Forms 508 and compared against associated FCC Form 509 representing actual data, as applicable. KPMG inquired of the Beneficiary regarding the process related to determination of projections related to ICLS and BLS funding mechanisms.

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, 2017. 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 seven findings. The findings, including the condition, cause, effect, recommendation and Beneficiary response are as follows:

Finding # HC2019BE013-F01: 47 C.F.R. Section 32.2(a),(b) – Improper Distribution of Overhead Amounts

CONDITION

KPMG obtained and examined the overhead clearing reports for the months of March 2015 and October 2015 to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary improperly cleared specific overhead expense amounts (6512 – Provision Expense and 6534 – Plant Operations Admin Expense) for the selected months to ineligible and/or inaccurate expense accounts. The Beneficiary's G/L system is configured to clear all overhead expenses based on direct labor payroll cost; as such Account 6512 – Provisioning Expense was not cleared appropriately using cost of materials. The summary of inappropriately cleared overhead accounts and amounts by Beneficiary is listed below:

Account 6512 – Provisioning Expense

Overhead Expense Account	Original Allocated Amount ($)	Revised Allocated Amount ($)	Variance ($)
2003 – TPUC	$ 51,837	$ 55,878	$ 4,041
5280 – Payphone Expense	$ 5	$ 0	($ 5)
6110 – Network Support Expense	$ 353	$ 145	($ 208)
6120 – General Support Expense	$ 599	$ 432	($ 167)
6210 – COE Switching Expense	$ 2,100	$ 1,977	($ 123)
6230 – COE Transmission Expense	$ 3,753	$ 4,743	$ 990
6320 – Inside Wiring Expense	$ 16	$ 43	$ 27
6410 – Cable & Wire Expense	$ 4,613	$ 3,902	($ 711)
6530 – Network Admin Expense	$ 2,778	$ 1,083	($ 1,695)
6540 – Access Expense	$ 24	$ 0	($ 24)
6610 – Marketing Expense	$ 65	$ 0	($ 65)
6620 – Customer Services Expense	$ 955	$ 0	($ 955)
6720 – General and Administrative Expense	$ 1,321	$ 0	($ 1,321)
Non-Regulated Accounts	$ 2,824	$ 3,040	$ 216
Total	**$ 71,243**	**$ 71,243**	**$ 0**

Note: A positive variance represents under allocation and a negative variance represents over allocation

Account 6534 – Plant Operations Administration Expense

Overhead Expense Account	Original Allocated Amount ($)	Revised Allocated Amount ($)	Variance ($)
2003 – TPUC	$ 39,174	$ 107,131	$ 67,957
6110 – Network Support Expense	$ 3,059	$ 0	($ 3,059)
6120 – General Support Expense	$ 5,816	$ 0	($ 5,816)
6210 – COE Switching Expense	$ 7,139	$ 0	($ 7,139)
6230 – COE Transmission Expense	$ 32,908	$ 0	($ 32,908)
6320 – Inside Wiring Expense	$ 59	$ 0	($ 59)
6410 – Cable & Wire Expense	$ 46,439	$ 0	($ 46,439)
6510 – Provisioning Expense	$ 1,813	$ 0	($ 1,813)
6530 – Network Admin Expense	$ 2,224	$ 2,647	$ 423
6540 – Access Expense	$ 1,101	$ 0	($ 1,101)
6610 – Marketing Expense	$ 1	$ 0	($ 1)
6620 – Customer Services Expense	$ 10,856	$ 8,887	($ 1,969
6720 – General and Administrative Expense	$ 21,358	$ 0	($ 21,358
Non-Regulated Accounts	$ 30,895	$ 84,177	$ 53,282
Total	**$ 202,842**	**$ 202,842**	**$ 0**

Note: A positive variance represents under allocation and a negative variance represents over allocation

CAUSE

The preparation, review and approval processes governing the clearing of benefits and overhead amounts did not detect the allocation of amounts to incorrect Part 32 accounts and the basis for allocation used was labor dollars rather than direct labor hours in accordance with Part 32 rules and regulations. The allocation basis of overhead clearing accounts had been established by the Beneficiary's prior management and current management team did not review the existing cost accounting practices for accuracy and compliance with requirements applicable to the clearing of overhead expenses.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2017 is an over-disbursement of $68,500 and is summarized as follows:

Support Type	Monetary Effect & Recommended Recovery
HCL	$ 50,566
ICLS	$ 17,934
CAF BLS	N/A
CAF ICC	N/A
Total	**$ 68,500**

RECOMMENDATION

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

KPMG recommends that the Beneficiary evaluate and update the methodology used for clearing overhead to the appropriate Part 32 expense accounts. Management should develop a formal process to perform continuous reviews of previously established cost treatments, especially when the transitions occur within the Management team to ensure compliance with FCC Rules.

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

BENEFICIARY RESPONSE

The Beneficiary has updated its clearing of overhead amounts related to accounts 6512 and 6534 to follow Part 32 rules. The Beneficiary will also continue to review its cost treatments, particularly when a transition in the management team occurs to ensure compliance with FCC Rules.

Finding # HC2019BE013-F02: 47 C.F.R. Section 64.901(a) – Improper Inclusion of Non-Regulated Amounts

CONDITION

KPMG obtained and examined a sample of 58 operating and payroll expenses totaling $1,605,600, utilizing a MUS sampling approach with additional judgmental selections to address initial exceptions, to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary did not accurately allocate certain operating and payroll expenses between regulated and non-regulated activities, and to related affiliates for the period from January 1, 2015 to December 31, 2015.

- An Engineering Expense (Account 6535 – Network Admin Expense) related to the recruitment of an individual ($17,640) for non-regulated activity was recorded in its entirety as a regulated expense.
- A Corporate Operations Expense (Account 6230 – COE Transmission Expense) related to inspection services for shared facilities ($12,211) was not allocated between regulated and non-regulated entities/activities. Amounts recalculated resulted in expenses overstated by $676.
- A General Office Expense (Account 6720 – General and Admin Expense*) related to office supplies ($11,750) was not allocated between regulated and non-regulated entities/activities. Amounts recalculated resulted in expenses overstated by $650.
- A Legal Expense (Account 6720 – General and Admin Expense*) for shared legal services ($11,745) was not allocated between regulated and non-regulated entities/activities. Amounts recalculated resulted in expenses overstated by $469.
- Two marketing expenses (Account 6720 - General and Admin Expense*) related to advertising ($9,430) were not allocated between regulated and non-regulated entities/activities. Amounts recalculated resulted in expenses overstated by $1,226.
- Payroll samples for certain administrative and management employees, totaling $219,645, were inaccurately allocated to regulated/non-regulated activities and to related affiliates. Amounts recalculated resulted in expenses overstated by $25,393. The Beneficiary recorded these transactions in the following accounts:

Account Name	Improperly Allocated Amount ($)
6512 – Provisioning Expense	($ 871)
6534 – Plan Operations Admin Expense	($ 11,488)
6534 – Plant Operations Admin Expense (Benefits Portion)	($ 1,577)
6720 – General and Admin Expense*	($ 9,974)
6720 – General and Admin Expense (Benefits Portion)	($ 1,483)
Total	**($ 25,393)**

Note: Negative amounts noted above represent an overrstatement of the regulated account balances.

Additionally, KPMG analyzed transactions recorded within expense accounts for potential expenses unrelated to the provision of regulated services. KPMG reviewed the general ledger details, of these accounts (for the period of January 1, 2015 to December 31, 2015) for transactions that do not support provision, maintenance, and upgrading of facilities and services. The analysis identified 294 ineligible expense transactions ($1,063,312) recorded as regulated Operations expenses within accounts, 6120 - General Support Expense ($677), 6210 – COE Switching Expense ($11), 6420 – Cable and Wire Expense ($558), 6610 – Marketing Expense ($4,490), and 6720 – General and Admin Expense* ($1,056,436). The Beneficiary recorded these transactions in the following expense categories within regulated Corporate Operations Expense accounts:

Expense Type	# of Transactions	Amount ($)
Sponsorships	88	$ 922,979
Entertainment	109	$ 98,543
Donations	4	$ 30,705
Membership fees/dues	16	$ 5,041
Food	62	$ 3,815
Gifts	10	$ 1,076
Penalties/Late Fees	3	$ 12
Total	**292**	**$ 1,062,171**

*For periods corresponding to HCL Forms 2017-1 the Beneficiary has exceeded allowable Corporate Operations Expense Caps by $2,300,468.

CAUSE

The preparation, review and approvals related to the Part 64 common cost allocation process did not detect the use of inappropriate cost allocation methodologies or miscalculations in the determination of certain regulated expenses. Additionally, the preparation, review and approvals related to the recording of regulated costs did not detect the improper inclusion of ineligible expenses in regulated expense accounts.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2017 is an over-disbursement of $20,093 and is summarized as follows:

Support Type	Monetary Effect & Recommended Recovery
HCL	$ 20,701
ICLS	($ 608)
CAF BLS	N/A
CAF ICC	N/A
Total	**$ 20,093**

RECOMMENDATION

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

KPMG recommends that the Beneficiary enhance controls and procedures related to preparation, review and approvals related to the calculation, recording and reporting of regulated expenses. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary will continue to enhance its controls and procedures related to the preparation, review and approvals of recording and reporting regulated costs in its submission of regulated filings in accordance with FCC Rules and Regulations.

Finding # HC2019BE013-F03: 47 C.F.R. Section 54.320(b) – Lack of Supporting Documentation for Assets

CONDITION

KPMG obtained and examined a sample of 38 assets, comprised of 93 invoices totaling $38,470,288, utilizing a MUS sampling approach with additional judgmental selections for other large dollar amounts, to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary did not retain sufficient documentation for one invoice related to a CWF asset valued at $28,912, which was acquired in 2009 and currently still in-use.

CAUSE

The Beneficiary noted that supporting documentation assets for one instance where an invoice related to a certain asset's work order was not available. With consideration to the sufficient supporting evidence obtained for our overall sample selections, this appears to be an isolated case of missing information.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2017 is an over-disbursement of $4,581 and is summarized as follows:

Support Type	Monetary Effect & Recommended Recovery
HCL	$ 3,214
ICLS	$ 1,367
CAF BLS	N/A
CAF ICC	N/A
Total	**$ 4,581**

RECOMMENDATION

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

KPMG recommends that the Beneficiary enhance controls to ensure all underlying documentation is retained throughout the lives of the related assets in accordance with applicable FCC Rules and Orders. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary will continue to enhance its controls to ensure that underlying documentation is retained throughout the lives of the related assets in accordance with applicable FCC Rules and Orders.

HC2019BE013-F04: 47 C.F.R. § 32.2681, 47 CFR § 32.27(a), 47 CFR § 36.2(c) & 47 CFR § 54.320(b) – Improper Affiliate Transactions

CONDITION

KPMG obtained and examined a judgmental sample of 16 affiliate transactions totaling $1,658,264 from all transactions amounting to $1,868,761, to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary did not properly record the following transactions with its affiliates:

a. Transfer of an asset from a non-regulated affiliate intended to go to another affiliate was recorded incorrectly in Smithville's records for $32,000.

b. One of the transactions related to a lease for the month of February 2015. The lease included 80 lease records for $17,835, of which five lease assets totaling $1,262 were selected for further testing. The Beneficiary recorded the lease transactions as operating leases and did not meet the appropriate requirement of the present value of the minimum lease payments being less than 90% of the fair market value for each of the leased properties, therefore qualifying them as a capital lease.

The summary of adjusted accounts are as follows:

Account Name	Improperly Allocated Amount ($)
2110 – Land and Support Assets	$38,244
3110 – Accumulated Depreciation	$59,921
6110 – Network Support Expense	($276)
6410 – Cable and Wire Expense	($5,861)
6560 – Depreciation Expense	$11,566
6720 – Depreciation and Amortization Expense	($321)

CAUSE

For the recording of the transferred asset, the Beneficiary did not have adequate procedures and controls over the review and approval of affiliate transactions recorded between the Beneficiary and its affiliates to ensure that the transfer of asset was appropriately recorded within the General Ledger.

For the recording of leases, the Beneficiary did not properly record the leases based on the requirements for lease determination per FCC rules and order. Through discussions with the Beneficiary, we observed that all 80 lease transactions were calculated to be equal to 75% useful life and equal 90% of the fair market value. The structure of the leases should have been set up as capital leases.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2017 is an over-disbursement of $3,760 and is summarized as follows:

Support Type	Monetary Effect & Recommended Recovery
HCL	$ 4,009
ICLS	($ 249)
CAF BLS/CAF-ICC	N/A
Total	**$ 3,760**

RECOMMENDATION

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

KPMG recommends that the Beneficiary perform quality control checks for the transfer of assets ensuring that they are properly recorded within the General Ledger. The Beneficiary should also enhance the preparation, review and approval processes governing the calculation of lease types to ensure the appropriate requirements are met per FCC Rules and Orders. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary will continue to enhance their procedures to perform quality control checks for the transfer of assets to ensure that they are properly recorded. The Beneficiary will also continue to enhance the preparation, review and approval processes related to the development of its lease calculations to ensure that the appropriate requirements are met per FCC Rules and Orders. The Beneficiary notes that the lease calculations were completed in accordance with FCC Rules and Orders, as well as Generally Accepted Accounting Principles. The Beneficiary acknowledges that it should have reduced the monthly operating lease expense by $.01 for the lease to qualify as an operating lease. The Beneficiary requested treatment as an operating lease in the calculation of the Monetary Effect and Recommended Recovery by reducing the expense by $.01 per month, since that was the intent of the Beneficiary when it developed the lease calculations.

KPMG RESPONSE

KPMG acknowledges the Beneficiary's intentions to enhance their procedures related to this area. Based on the support provided, and through discussions with the Beneficiary, we observed that all 80 lease transactions were established with the direct objective for meeting the criteria of an operating lease. Specifically, the Beneficiary followed its process to calculate the lease transactions to be equal to 75% useful life and equal to 90% of the fair market value (not less) in an effort to directly classify them as operating leases rather than completing a true useful life/FMV analysis to validate whether they should be classified as operating leases versus capital leases. This process is inconsistent with the guidelines set forth in 47 CFR § 32.2681 (2015) and should be remediated to ensure a true useful life/FMV analysis is performed in order to classify leases accurately. Therefore, the request to treat the leases as operating was not honored for consideration of the monetary effect and recommended recovery (calculated at $3,760).

Finding # HC2019BE013-F05: 47 C.F.R. § 32.12(a) – Inaccurate Accounting Period

CONDITION

KPMG obtained and examined a sample of 58 operating and payroll expenses totaling $1,605,600, utilizing a MUS sampling approach with additional judgmental selections to address initial exceptions, to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary did not properly record an expense (Account 6212 – COE Switching Expense) in the correct fiscal year under review of January 1, 2015 to December 2015. A portion of a general support expense ($9,220) related to annual customer support beginning in 2014 was recorded entirely in 2015. During a review conducted in 2015 the Beneficiary recognized the entire invoice amount during this financial year, however only 8 months of support was applicable within 2015. The Beneficiary should not have expensed the entire amount in 2015 and should have deducted 4 months of customer support expense recognized in the prior fiscal period.

CAUSE

The preparation, review and approval processes governing the retention of appropriate records did not detect the recording and reporting of regulated costs in the proper accounting period when the underlying transaction occurred.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2017 is an over-disbursement of $3,641 and is summarized as follows:

Support Type	Monetary Effect & Recommended Recovery
HCL	$ 4,073
ICLS	($ 432)
CAF BLS	N/A
CAF ICC	N/A
Total	**$ 3,641**

RECOMMENDATION

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

KPMG recommends that the Beneficiary enhance controls for recorded assets and expenses in the proper accounting period in accordance with the FCC's Part 32 Uniform System of Accounts and generally accepted accounting principles. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary will continue to enhance its controls for recording assets and expenses in the proper accounting period in accordance with the FCC's Part 32 Uniform System of Accounts and generally accepted accounting principles. The Beneficiary notes that the disbursement in question is a recurring annual expense. The Beneficiary makes sure to record one year's worth of expense in each year. Therefore, the result of the Beneficiary's method of recording this expense is materially proper, even if the Beneficiary has not recorded an allocation of each year's invoice between the applicable years. The Beneficiary also notes that the Monetary Effect is likely overstated since the expense removed would be replaced by expense that was recorded in another period, but that should have applied to the period being reviewed.

KPMG RESPONSE

KPMG understands the Beneficiary's response, if the customer support expense was an annual recurring cost. Based on the support provided, and through discussions with the Beneficiary, we noted that the annual customer service related to the asset ended during 2015 with no further customer service support to continue thereafter. Therefore, the consideration for recurring annual customer service expense is not applicable.

Finding # HC2019BE013-F06: 47 C.F.R. Section 32.2000(g)(2)(i) – Inaccurate Depreciation Calculation

CONDITION

KPMG obtained and examined the general ledger and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary did not accurately report accumulated depreciation and depreciation expense for the period of January 1, 2015 to December 31, 2015 due to various reasons noted below:

a. The Beneficiary made calculation errors in computing the depreciation expense for accounts 2112 – Land and General Support Assets ($86,216), 2212 – Central Office Switching ($42,369), and 2412 – Cable and Wire Facilities ($8,031).
b. The Beneficiary utilized beginning asset monthly balances to compute depreciation expense versus using the average monthly asset balances, as prescribed by FCC Rules.

The net differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2015 impacting the 2015-1 HCL Form and 2015 FCC Form 509 accounted for a 1.7% difference of the overall Depreciation Expense and are as follows:

Account Description	For the 12 months ended December 31, 2015 $ Variance
Account 3100 (2110): Accumulated Depreciation -Land and General Support Assets	$92,914
Account 3100 (2210): Accumulated Depreciation – Central Office Switching	$42,369
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$12,377
Account 3100 (2410): Accumulated Depreciation - Cable and Wire Facilities	$14,369
Account 6560: Depreciation and Amortization Expense	$162,029

Note: Negative amounts noted above represent an overrstatement of the regulated account balances.

CAUSE

The preparation, review and approval processes governing the calculation of accumulated depreciation and depreciation expense did not detect the Beneficiary's depreciation method was not in accordance with FCC Rules. The Beneficiary utilizes mass asset accounting and used beginning month balance method to calculate depreciation has been in place for over 15 years and no review was conducted of the requirements to ensure compliance with FCC Rules.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2017 is an under-disbursement of $50,867 and is summarized as follows:

Support Type	Monetary Effect & Recommended Recovery
HCL	($ 30,322)
ICLS	($ 20,545)
CAF BLS	N/A
CAF ICC	N/A
Total	**($ 50,867)**

RECOMMENDATION

KPMG recommends that the Beneficiary enhance the preparation, review and approval processes governing the calculation of depreciation to ensure compliance with FCC Rules and Orders. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary will continue to enhance its preparation, review and approval processes related to the calculation and recording of depreciation to ensure compliance with FCC Rules and Orders.

HC2019BE013-F07: 47 C.F.R. Section 54.903(a)(4) – Inaccurate Revenues

CONDITION

KPMG obtained and examined the general ledger and Form 509 to determine whether the Beneficiary reported its cost study balances accurately for High Cost Program purposes. The Beneficiary's annual SLC Revenue amounts reported on the 2015 ICLS Form 509 did not reconcile to the underlying GL detail. We noted the variance was related to the SLC revenues reported on the Form 509 being overstated by $280,123 because the Multi-Line Business revenue amount was double counted. Specifically, the very same revenue amount was reported as both as the Multi-Line Business revenue line item and as the Residential/Single-Line Business revenue line item.

CAUSE

The Beneficiary's processes and procedures governing the preparation and review of the Form 509 did not identify the submission of erroneous information.

EFFECT

The monetary impact of this finding relative to disbursements made from the HCP for the twelve-month period ended December 31, 2017 is an under-disbursement of $208,123 and is summarized as follows:

Support Type	Monetary Effect & Recommended Recovery
HCL	N/A
ICLS	($ 208,123)
CAF BLS	N/A
CAF ICC	N/A
Total	**($ 208,123)**

RECOMMENDATION

KPMG recommends that the Beneficiary enhance its preparation, review, and approval process governing the accurate calculation and reporting of historical data between the source documentation and the HCP Forms prior to filing. In addition, the Beneficiary may learn more about the reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

The Beneficiary will continue to enhance its preparation, review and approval processes related to the calculation and reporting of historical data between the source documents and the HCP Forms prior to filing.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2(a),(b) (2015).	"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. 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."
#1	47 C.F.R. § 32.6512(b) (2015).	"Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge."
#1	47 C.F.R. § 32.6534(b) (2015).	"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."
#2	47 C.F.R. § 64.901(a) (2015).	"Carriers required to separate their regulated costs from non-regulated costs shall use the attributable cost method of cost allocation for such purpose."
#2	47 C.F.R. § 64.901(b)(2)-(3) (2015).	"In assigning or allocating costs to regulated and non-regulated activities, carriers shall follow the principles described herein… (2) Costs shall be directly assigned to either regulated or non-regulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or non-regulated 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 non-regulated activities. Each cost category shall be allocated between regulated and non-regulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.

Finding	Criteria	Description
		(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and non-regulated activities."
#2	*All Universal Service High-Cost Recipients are Reminded that Support Must be Used for its Intended* Purpose, Public Notice , FCC 15-133, 30 FCC Rcd 11821 (rel. Oct. 19, 2015).	"The Commission reminds all eligible telecommunications carriers (ETCs) that receive support from the Universal Service Fund's high-cost mechanisms (whether legacy high-cost program support or Connect America Fund support) of their obligations to use such support only for its intended purposes of maintaining and extending communications service to rural, high-cost areas of the nation… ….. The following is a non-exhaustive list of expenditures that are not necessary to the provision of supported services and therefore may not be recovered through universal service support: • Personal travel; • Entertainment; • Alcohol; • Food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; • Political contributions; • Charitable donations; • Scholarships; • Penalties or fines for statutory or regulatory violations; • Penalties or fees for any late payments on debt, loans or other payments • Membership fees and dues in clubs and organizations; • Sponsorships of conferences or community events; • Gifts to employees; and Personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages."
#3,4	47 CFR § 54.320(b) (2015).	"All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."
#4	47 CFR § 32.27(a) (2015).	"Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts"

Finding	Criteria	Description
#4	47 CFR § 32.2681 (2015).	“(a) This account shall include all property acquired under a finance lease. A lease qualifies as a finance lease when one or more of the following criteria is met: (1) By the end of the lease term, ownership of the leased property is transferred to the leasee. (2) The lease contains a bargain purchase option. (3) The lease term is substantially (75% or more) equal to the estimated useful life of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease. (4) At the inception of the lease, the present value of the minimum lease payments, excluding that portion of the payments representing executory costs to be paid by the lessor, including any profit thereon, equals or exceeds 90% or more of the fair value of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease. (b) All other leases are operating leases. (c) The amounts recorded in this account at the inception of a finance lease shall be equal to the original cost, if known, or to the present value not to exceed fair value, at the beginning of the lease term, of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs to be paid by the lessor, together with any profit thereon.”
#4	47 CFR § 36.2(c) (2015).	“Property rented to affiliates, if not substantial in amount, is included as used property of the owning company with the associated revenues and expenses treated consistently: Also such property rented from affiliates is not included with the used property of the company making the separations; the rent paid is included in its expenses. If substantial in amount, the following treatment is applied: (1) In the case of property rented to affiliates, the property and related expenses and rent revenues are excluded from the telephone operations of the owning company, and (2) In the case of property rented from affiliates, the property and related expenses are included with, and the rent expenses are excluded from, the telephone operations of the company making the separation.”
#5	47 C.F.R. § 32.12(a) (2015).	“The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.”
#6	47 CFR 47 C.F.R. § 32.2000(g) (2)(iii) (2015).	“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.”

Finding	Criteria	Description
#7	47 C.F.R. § 54.903(a)(4) (2015).	"Each rate-of-return carrier shall submit to the Administrator on December 31st of each year the data necessary to calculate a carrier's Interstate Common Line Support, including common line cost and revenue data, for the prior calendar year. Such data shall be used by the Administrator to make adjustments to monthly per-line Interstate Common Line Support amounts in the final two quarters of the following calendar year to the extent of any differences between the carrier's ICLS received based on projected common line cost and revenue data and the ICLS for which the carrier is ultimately eligible based on its actual common line cost and revenue data during the relevant period."

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, 2017 identified; inappropriate clearing of overhead expenses, improper inclusion of non-regulated expenses, unsupported recording of assets, inaccurate accounting period for an expense, inaccurate revenue, affiliate transactions, and inaccurate depreciation calculation. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

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

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	$ 52,241
ICLS	($ 210,656)
CAF BLS	$ 0
CAF ICC	$ 0
Total Impact	**($ 158,415)**

KPMG recommends that the Beneficiary enhance the preparation, review and approval processes related to clearing overheads, calculating and allocating Part 64 common costs, recording allowable expenses, using proper accounting periods, reporting revenues, document retention, treatment of affiliate transactions, and calculating depreciation in accordance with FCC Rules and Orders.

Summary of Lifeline Support Mechanism Beneficiary Audit Reports Released: May 2021

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action*	Entity Disagreement
I-Wireless, LLC **Attachment A**	2	• FCC Form 497 and NLAD Variance: The Holding Company claimed subscribers on the FCC Forms 497 who were not active in NLAD for the applicable month.	$49,916,021	$5,063	$4,499	Y
Telrite Corporation **Attachment B**	2	• FCC Form 497 and NLAD Variance: The Holding Company claimed subscribers on the FCC Forms 497 who were not active in NLAD for the applicable month.	$59,247,854	$44,315	$44,315	Y
Total	**4**		**$109,163,875**	**$49,378**	**$48,814**	

*The USAC Management Recovery Action is less than the Monetary Effect to prevent double-recovery as the Beneficiary submitted revised FCC Forms 497 to reimburse a portion of that amount to the Universal Service Fund.

Attachment A

LI2019SR003

I-Wireless, LLC

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

USAC Audit No. LI2019SR003

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DP George & Company

EXECUTIVE SUMMARY

May 4, 2021

Mr. Sam Bailey
I-Wireless, LLC
1 Levee Way, Suite 3104
Newport, KY 41071

Dear Mr. Bailey,

DP George & Company, LLC (DPG) audited the compliance of I-Wireless, LLC (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during calendar year 2017 (the audit period), using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Holding Company's management. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the Rules based on our limited scope audit.

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

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

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

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

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Teleshia Delmar, USAC Vice President, Audit and Assurance Division
Radha Sekar, USAC Chief Executive Officer
James Lee, Acting USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery	Extrapolated Value
Finding #1: 47 C.F.R. § 54.404(b) – FCC Form 497 and NLAD Variance. The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not active in NLAD for the applicable month.	$3,527	$3,527
Finding #2: 47 C.F.R. § 54.407(a) – FCC Form 497 and State Database Variance. The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not identified as eligible in the corresponding state database for the applicable month.	$1,536	$1,536
Total	**$5,063**	**$5,063**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results. The Beneficiary submitted revised Forms 497 after the beginning of the audit to reimburse the Universal Service Fund for monetary findings totaling $564 identified in Finding 2. Therefore, USAC will seek recovery of $4,499 in Lifeline Program support. USAC management will issue a separate memorandum to the Beneficiary to address the audit results.

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The Holding Company claimed 5,388,663 subscribers and $49,916,021 in support during the calendar year 2017 period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

SAC Number	State	Number of Subscribers	Amount of Support
159023	NY	1,188,449	$10,993,154
219018	FL	1,133,374	$10,483,721
299020	TN	428,286	$3,961,648
239025	NC	425,704	$3,937,766
549022	CA	344,146	$3,183,352
349029	IL	25,6002	$2,368,021
309007	OH	245,003	$2,266,280
449069	TX	159,467	$1,475,072
459013	AZ	131,435	$1,215,776
199015	VA	126,407	$1,169,269
329013	IN	118,226	$1,093,593
579004	DC	102,747	$950,412
319029	MI	101,613	$939,927

SAC Number	State	Number of Subscribers	Amount of Support
229018	GA	100,397	$928,676
269031	KY	76,430	$706,981
179029	PA	75,763	$700,811
249014	SC	62,176	$575,132
569004	DE	56,110	$519,022
369023	MN	41,321	$382,223
289030	MS	34,096	$315,391
339045	WI	33,092	$306,103
139004	CT	18,190	$168,260
259041	AL	16,441	$152,081
469013	CO	15,718	$145,392
209022	WV	14,714	$136,107
189017	MD	14,453	$133,691
409027	AR	14,057	$130,031
419028	KS	11,068	$102,384
559013	NV	10,680	$98,790
539016	OR	7,098	$65,659
429020	MO	6,685	$61,840
439063	OK	2,913	$97,722
529018	WA	5,666	$52,412
509005	UT	5,174	$47,865
279048	LA	4,071	$37,657
359140	IA	575	$5,320
589011	RI	550	$5,088
379032	NE	212	$1,964
129006	NH	142	$1,314
479020	ID	12	$114
Total		**5,388,663**	**$49,916,021**

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

BACKGROUND

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

PROCEDURES

DPG performed the following procedures:

A. FCC Form 497

DPG obtained and tested the Holding Company's FCC Forms 497 (Form(s) 497) for accuracy by comparing the amounts claimed against the subscriber listings provided by the Holding Company.

B. Program Eligibility Documentation

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to verify program eligibility. DPG obtained and tested eligibility documentation for a sample of 496 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation for a sample of 383 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. NLAD/State Database Validation

DPG obtained the Holding Company's subscriber listings and used computer assisted auditing techniques to analyze the listings and determine whether the number of subscribers claimed each month agreed to the number of eligible subscribers recorded in NLAD or the comparable state database for the same month.

E. Transferred Subscribers

DPG obtained an understanding of the Holding Company's enrollment, certification, and de-enrollment processes relating to the Lifeline Program to determine the steps taken by the Holding Company to transfer (in or out) subscribers. DPG obtained and tested enrollment documentation for a sample of 143 Transferred In subscribers to determine whether the subscribers were transferred in accordance with the Rules. DPG also obtained documentation for all NLAD variances identified in Procedure D above where a subscriber was claimed in a given Form 497 month but listed as Transferred Out in NLAD for the same month.

F. Deceased Subscribers

DPG obtained the Holding Company's subscriber listings and worked with USAC to identify currently deceased subscribers. DPG selected a sample of 135 subscribers who were deceased and were claimed after their date of death. DPG obtained and tested certification, recertification, and usage documentation for these subscribers to determine whether the Holding Company complied with the Rules while continuing to claim the subscriber.

G. Duplicate Subscribers

DPG obtained the Holding Company's subscriber listings and used computer assisted auditing techniques to analyze the listings and determine whether duplicate subscribers where included on the listings. DPG obtained and reviewed Holding Company explanations and copies of eligibility or other documentation to determine whether the subscriber represented a duplicate claim.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variances

CONDITION

DPG obtained and analyzed the Holding Company's subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Holding Company reported the correct number of qualifying subscribers on the Forms 497.[1] Using the enrollment, transfer in, de-enrollment, and transfer out dates in NLAD, DPG compared the subscribers identified as active in NLAD against the subscribers who were claimed on the Forms 497 during the audit period. DPG identified 365 instances for 353 subscribers where a subscriber was claimed and was not identified as active in NLAD for the month claimed.

DPG determined that the instances occurred in the following SACs:

SAC Number	State	Number of Subscribers	Number of Instances
159023	NY	107	107
219018	FL	50	50
299020	TN	43	43
239025	NC	32	32
309007	OH	19	21
349029	IL	19	19
179029	PA	12	12
199015	VA	11	11
249014	SC	1	11
319029	MI	10	10
579004	DC	9	9
459013	AZ	8	8
329013	IN	6	6
439063	OK	6	6
229018	GA	4	4
289030	MS	4	4
189017	MD	2	2
209022	WV	2	2
269031	KY	2	2
259041	AL	1	1
279048	LA	1	1
339045	WI	1	1
369023	MN	1	1
429020	MO	1	1
469013	CO	1	1
Total		**353**	**365**

[1] *See* 47 C.F.R. §§ 54.404(b)(2), (6), (8), (10); 407(a); 417(a) (2016)

DPG further categorized the instances as follows:

Variance Category	Number of Subscribers	Number of Instances
Subscriber was transferred-out in NLAD before the 1st day of the month.	345	345
Subscriber was de-enrolled in NLAD before the 1st day of the month.	4	14
Subscriber did not have a valid NLAD transaction.	3	3
Subscriber was enrolled in NLAD after the 1st day of the month.	1	3
Total	**353**	**365**

The Holding Company is required to transmit requisite information for each new and existing Lifeline subscriber to NLAD and correspondingly, to update its records for subscribers identified in NLAD as transferred.[2] The Holding Company must also report the number of qualifying subscribers on the Form 497 based on subscribers who have met all requirements to be eligible for Lifeline Program support and for whom the Holding Company provides Lifeline service.[3]

When analyzing the Form 497 data, DPG noted that the count of subscribers claimed on the Form 497 for each SAC was consistently lower than the base subscriber listing count provided by the Holding Company. The Holding Company indicated that it applied a holdback percentage during 2017 when submitting its Form 497 claims.

Lifeline support is provided based on the number of actual qualifying low income consumers the Holding Company serves directly as of the first day of the month.[4] The Form 497 submission also requires the Holding Company to certify that the data being submitted is accurate and complete.[5] The application of a holdback percentage to determine the number of Lifeline subscribers claimed on the Form 497 results in an estimated count of qualifying low income consumers and not the actual count intended by the Rules.

CAUSE

The Holding Company did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497. The Holding Company also applied a holdback percentage when preparing the Form 497.

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[2] *See* 47 C.F.R. § 54.404(b)(6), (8), (10) (2016)

[3] *See* 47 C.F.R. § 54.407(a) (2016)

[4] *See* 47 C.F.R. § 54.407(a) (2016)

[5] *See* Lifeline Worksheet, FCC Form 497, OMB 3060-0819, at 2, line 19 (July 2016)

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline (2017) – Tribal	$206	$206
Lifeline (2017) – Non-Tribal	$3,321	$3,321
Total	**$3,527**	**$3,527**

DPG calculated the tribal monetary effect by multiplying the six instances where six tribal subscribers were claimed on the Form 497 and not listed as active in NLAD by the support amount requested on the applicable 2017 Form 497 ($34.25) and rounded to the nearest whole dollar. DPG calculated the non-tribal monetary effect by multiplying the 359 instances where 347 non-tribal subscribers were claimed on the Form 497 and not listed as active in NLAD by the support amount requested on the applicable 2017 Form 497 ($9.25) and rounded to the nearest whole dollar.

There is no monetary effect for applying a holdback percentage to the Form 497 claim. However, the number of subscribers claimed on the audit period Form 497 becomes an estimated representation and not an actual representation of the number of qualifying low income subscribers served as of the first day of the month. The lack of an actual qualifying low income subscriber count makes it impossible to determine specific subscribers who should be removed in NLAD in conjunction with the holdback. The application of the holdback also diminishes the value of the established Form 497 revision process of accounting and adjusting for subscribers identified as ineligible after the initial Form 497 submission.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount recommended in the Effect section above. Current Lifeline Rules require Holding Companies to file Form 497 claims based on the number of subscribers in NLAD as of the 1st day of the month and do not allow the application of a holdback percentage when filing. Therefore, we make no recommendations regarding the NLAD monitoring process or the Form 497 holdback percentage.

HOLDING COMPANY RESPONSE

I-wireless partially disagrees with this finding. There were 342 subscribers that were marked as findings when they were exactly 1 day from the removal date from NLAD vs i-wireless' system of record. I-wireless believes these records should be removed from the finding. At the time of the audit, the NLAD snapshot date was not required for ETCs to use. ETCs were allowed to use an internal snapshot date. I-wireless chose to use the internal snapshot. I-wireless updated it records from NLAD in a timely fashion for 342 subscribers that had a 1 day difference between i-wireless' internal snapshot date and the NLAD's snapshot date. I-wireless agrees that these subscribers should be removed from internal records with a reasonable amount of time. A reasonable amount of time is subjective, but i-wireless believes these subscribers should be allowed to be updated within 1 business day. It is not reasonable to have these records updated in our system within 1 day or less. ETCs were not required to use the NLAD snapshot at the time of the audit period. If this would have been made a requirement at the time, i-wireless would not have had any findings. The rule at the time, allowed ETCs to use their own systems and internal snapshot, if records needed to be updated in 1 day or less then why didn't USAC/FCC require ETCs to use the NLAD snapshot? ETCs having their own internal snapshot was pointless if the records must exactly match up to what is in the NLAD snapshot. There would not be any difference between the two systems. However, the rules allowed ETCs to use an internal snapshot thus accounting for adjustments or differences between the two systems around the time of the snapshot. The very least i-wireless believes that a

1 business day grace period is reasonable timeframe to make updates.   USAC/FCC were fully aware ETCs were using internal snapshots and did not require ETCs to de-enroll subscribers 1 day or less in their internal systems. Therefore, i-wireless request the 342 records that had a 1-day difference be removed from the findings.
The remaining 23 findings, i-wireless agrees that the timeframe of removal from our internal records were outside of the reasonableness. As such, there are no system changes that are required to be made with this finding because i-wireless is currently using the NLAD snapshot date as required since 2018. The total monetary finding should be $213.

DPG RESPONSE

DPG understands that the rules in effect during the 2017 audit period allowed the Holding Company to use a snapshot of Lifeline customers from its systems on the first day of the month. While we performed our initial variance analysis using the NLAD snapshot reports generated the first day of the month, we removed all variances that resulted from NLAD activity recorded on the first day of the month. We maintain that for the four categories identified in the Condition section and reflected below, NLAD transaction activity was provided to the Holding Company as of the last day of the month that indicated an update was needed to the Holding Company's internal records.

1. Subscriber was transferred-out in NLAD before the 1st day of the month
2. Subscriber was de-enrolled in NLAD before the 1st day of the month
3. Subscriber did not have a valid NLAD transaction
4. Subscriber was enrolled in NLAD after the 1st day of the month

With regard to category 1, which includes the 342 subscribers where the Holding Company believes a reasonable timing difference exists, we refer to paragraph 242 of the 2015 Lifeline Order which states:

> "Following the Lifeline Reform Order, USAC encouraged ETCs to select a single "snapshot date" during the month (e.g., the 15th of every month) to determine the number of eligible consumers for which it would seek reimbursement for that month. As a result, the snapshot dates vary from ETC to ETC. We now decide that ETCs should all use the same snapshot date to determine the number of Lifeline subscribers served in a given month and report that month to USAC on the FCC Form 497. We conclude that a snapshot date will produce substantial benefits. **First, a uniform snapshot date will reduce the risk that two ETCs receive full support for providing service for the same subscriber in the same calendar month.** Second, a uniform snapshot date will make it easier for USAC to adopt uniform audit procedures. Third, as described in the Second FNPRM section above, a uniform snapshot date will help ease the transition to a reimbursement process that calculates support based on the number of subscribers contained in the NLAD. Given the industry support and comment around the establishment of a snapshot date, compliance with our rules will be high and the administrative costs associated will be low. To promote efficiency and ease of administration, we revise section 54.407 and direct ETCs to take a snapshot of their subscribers on the first day of the month."

The FCC's 2015 Lifeline Order makes it clear that the FCC did not intend for two ETCs to receive full support for providing service to the same subscriber in the same calendar month. To facilitate this policy objective, NLAD uses a specific transfer process designed to avoid duplicative support. Specifically, the NLAD transfer process establishes a common transition date on which "ownership" of the subscriber is moved from one ETC to another. NLAD generates a daily-automated email notification on the date of transfer to inform the original ETC of the transfer date. Moreover, ETCs have the capability to access the Detail Transaction Reports in NLAD at any time to identify whether a subscriber has transferred.

For the reasons above, we maintain our position that the Holding Company did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497 and that there were 365 instances where a subscriber was claimed and was not identified as active in NLAD for the month claimed.

Finding #2: 47 C.F.R. § 54.407(a) – Form 497 and State Database Variance

CONDITION

DPG obtained and analyzed the Holding Company's subscriber data listed in the California state database reports to determine whether the Holding Company reported the correct number of qualifying eligible subscribers on its 2017 Forms 497.[6] DPG identified 166 instances for 90 subscribers where the subscriber was claimed on the Form 497 and was not identified as eligible for the applicable month through the 2017 daily return files prepared by the California Public Utilities Commission (CPUC).

Because the CPUC informed the Holding Company of qualifying monthly low-income consumers via the daily return files, subscribers not listed as eligible as of the first report of the month should not be included in the internal records used by the Holding Company as the basis for its corresponding monthly Form 497 claim.

CAUSE

The Holding Company did not have an adequate system in place for removing subscribers from its Form 497 claim who were not identified as eligible by the state Public Utilities Commission (PUC).

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline (2017)	$1,536	$1,536

DPG calculated the monetary effect by multiplying the 166 instances where the 90 subscribers were claimed on the Form 497 and not identified as eligible in the California state database by the support amount requested on the applicable 2017 Form 497 ($9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Holding Company implement an adequate system to remove subscribers from its Form 497 claim who are not identified as eligible in the corresponding state database.

HOLDING COMPANY RESPONSE

I-wireless partially disagrees with findings. I-wireless did not utilize the WAR or the True-up files for reconciliation purposes of the 497. I-wireless used the daily return files to reconcile our internal systems. At the time of the audit period, there were no rules that required an ETC to use the True-up report or the WAR. The purpose of the True-up was to identify records to reconcile systems (ours and TPA) not to file the 497. In addition, the purpose of the WAR was not to reconcile what subs could be on the 497 but to tell ETC how much they were going to be reimbursed for state funds. Again, ETCs were allowed to use their own internal snapshot

[6] *See* 47 C.F.R. §§ 54.407(a), 417(a) (2016).

at the time of the audit period. However, if i-wireless is going to be held to the standard the subscriber must be on the WAR or the True-up report then it should be allowed to use either report but after i-wireless stated it didn't use the True-up report for reconciliation purposes, i-wireless was held to the standard of using the WAR. However, of the remaining 105 instances (166 minus 61 below) 97 instances of the 105 were on the True-up report for the months in question. Therefore, i-wireless believes that 97 of the 105 instances should be removed from the audit finding. If the subscriber was on the WAR or the True-up report then there should be no finding. I-wireless does agree to the 8 remaining instances as audit findings. Supporting documentation has already been provided that shows that these 97 instances were on the True-up files in question.

In addition, i-wireless disagrees with the monetary findings of 61 instances or 25 subscribers. While i-wireless acknowledges that the 61 instances were identified by the audit and are findings, i-wireless during the course of the audit refiled the CA 497s for the months of April 2017 to December 2017 because of the audit finding. Therefore, the monetary finding of $564.25 should be removed from recovery amount. See supporting documentation of detail 497 records that show the 61 instances or 25 subscribers removed from the 497 revisions.

In addition, i-wireless voluntarily held back subscribers that were not claimed on the 497 but were eligible for reimbursement. Services were provided and used for every subscriber on the detail file. This was a common industry practice at the time. Therefore, each month i-wireless could take one of the additional subscribers that were not claimed and replace it with the ones that were identified in the audit as a finding. The table below shows the number of records that were eligible (detail) and the number of subscribers that were claimed. The difference between the two columns, is the number of subscribers that could be taken as a replacement. Below is a table showing the difference. I-wireless believes that the remaining 8 instances (see above notes) in audit Finding 2 could be used as a substitute for the 67 (net adjustments made after revision 2) that were not claimed. If USAC does not agree with i-wireless on the logic of the 97 instances above, then (67 minus 8) 59 remaining subscribers that were not claimed could be used as a substitute; thus reducing the finding (97 minus 59) to 38 instances of issues. Regardless of how USAC agrees with the finding or not the most monetary finding should be 46 (38 plus 8) instances or $426 for Finding 2 due to subscriber holdbacks.

	Rev 1 Filed 12/12/19	Rev 1		Revision 2 Filed 4/15/20	
	USAC PDF	**Detail**	**Difference**	**Subs Claimed**	**Net Adjustments from rev 2**
17-Apr	23,818	23,834	16		16
17-May	20,707	20,723	16		16
17-Jun	18,795	18,810	15		15
17-Jul	19,152	19,172	20		20
17-Aug	21,895	21,895	0		0
17-Sep	24,226	24,226	0		0
17-Oct	30,340	30,340	0	30,339	0
17-Nov	39,279	39,281	2	39,277	0
17-Dec	51,643	51,649	6	51,642	0
Total			75		67

DPG RESPONSE

There were three acceptable approaches a Holding Company could follow during the audit period to update its internal records regarding the eligibility of California subscribers prior to submission of the Form 497: use of the Weighted Average Report (WAR), use of the True-Up report, or use of the daily return file. We agree that the Holding Company informed us that it was using the daily return files to update its records. We do not agree that we held the Holding Company to a standard of agreeing to the WAR. DPG used the WAR report as a starting point for identifying eligible subscribers at the end of the month because no such report is available based on the daily return files. We presented the initial eligibility variances identified by our comparison to the Holding Company for review and received copies from them of daily reports prepared on the first day of the month. DPG considered these reports and removed variances for subscribers listed as eligible on the daily return files provided. We maintain that our consideration of the daily return files in evaluating the initial eligibility variances aligned our assessment with the Holding Company's indication that it used the daily return files to update its internal records. We do not agree that it is appropriate to consider the presence of a subscriber on the True-Up report as a basis for eligibility because the True-Up report reflects both the addition and removal of subscribers that occurred after the generation of the daily return file on the first day of the month. Based on the Holding Company's response, DPG modified language in the Condition and Effect section of our draft report to clarify that our variance testing considered the daily return files and not the WAR.

DPG acknowledges that the Holding Company provided support to indicate that 61 of the instances identified in our finding were recovered through the submission of revised Forms 497. As the submission of the revised Forms 497 occurred after the start of our audit, they are outside of the scope of our audit and we are not able to consider their impact on the monetary effect for this finding. We provided the related support to USAC program management for their consideration in determining the amount pursued for recovery.

As indicated in Finding #1, the application of a holdback percentage is not consistent with the requirement that support is provided based on the number of actual qualifying low income consumers the Holding Company serves directly as of the first day of the month. We also do not consider it appropriate to apply the holdback amounts against the ineligible instances identified by our finding because of the inability to identify the holdback amounts at the customer level or attribute them to a specific cause.

For the reasons above, we maintain our position that the Holding Company did not have an adequate system in place for removing subscribers from its Form 497 claim who were not identified as eligible by the state PUC. As a result, there were 166 instances where a subscriber was claimed on the Form 497 and was not identified as eligible on the 1st day of the applicable month per the 2017 daily return files prepared by the CPUC.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.404(b)(2), (6), (8), (10) (2016)	"(b) *The National Lifeline Accountability Database*. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: … (2) If the Database indicates that a prospective subscriber, who is not seeking to port his or her telephone number, is currently receiving a Lifeline service, the eligible telecommunications carrier must not provide and shall not seek or receive Lifeline reimbursement for that subscriber.... (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline…. (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section…. (10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."
#1, #2	47 C.F.R. § 54.407(a) (2016)	"(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month."
#1, #2	47 C.F.R. § 54.417(a) (2016)	"Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in … [47 C.F.R. §] 54.410(d) and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years."
#1	Lifeline Worksheet, FCC Form 497, OMB 3060-0819, at 2, line 19 (July 2016)	"Based on the information known to me or provided to me by employees responsible for the preparation of the data being submitted, I certify under penalty of perjury that the data contained in this form has been examined and reviewed and is true, accurate, and complete."

Attachment B

LI2019SR005

DP George & Company

Telrite Corporation

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

USAC Audit No. LI2019SR005

TABLE OF CONTENTS

DP George & Company

EXECUTIVE SUMMARY

May 4, 2021

Mr. Jim Carpenter
Telrite Corporation
4113 Monticello Street
Covington, GA 30014

Dear Mr. Carpenter,

DP George & Company, LLC (DPG) audited the compliance of Telrite Corporation (Holding Company), for all study area codes (SACs) where the Holding Company claimed subscribers during calendar year 2017 (the audit period), using regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Holding Company's management. DPG's responsibility is to make a determination regarding the Holding Company's compliance with the Rules based on our limited scope audit.

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

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

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

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

Sincerely,

DP George & Company, LLC

DP George & Company, LLC
Alexandria, Virginia

cc: Teleshia Delmar, USAC Vice President, Audit and Assurance Division
Radha Sekar, USAC Chief Executive Officer
James Lee, Acting USAC Vice President, Lifeline Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect & Recommended Recovery	Extrapolated Value
Finding #1: 47 C.F.R. § 54.404(b) – FCC Form 497 and NLAD Variance. The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not active in NLAD for the applicable month.	$39,015	$39,015
Finding #2: 47 C.F.R. § 54.407(a) – FCC Form 497 and State Database Variance. The Holding Company claimed subscribers on the audit period FCC Forms 497 who were not identified as eligible in the corresponding state database for the applicable month.	$5,300	$5,300
Total	**$44,315**	**$44,315**

USAC MANAGEMENT RESPONSE

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

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

The Holding Company claimed 6,407,814 subscribers and $59,247,854 in support during the calendar year 2017 period covered by our audit. The following chart details the subscriber claims and support received amounts by Study Area Code (SAC).

SAC Number	State	Number of Subscribers	Amount of Support
639010	PR	2,601,526	$24,064,463
549025	CA	1,210,074	$10,983,859
269040	KY	532,461	$4,925,741
229017	GA	295,993	$2,737,999
249021	SC	253,634	$2,346,322
349030	IL	220,177	$2,036,656
449077	TX	200,372	$1,853,443
309018	OH	185,782	$1,718,467
279040	LA	123,871	$1,145,807
209016	WV	118,782	$1,098,734
369016	MN	98,935	$915,261
319039	MI	82,632	$764,357
459019	AZ	73,181	$676,927

SAC Number	State	Number of Subscribers	Amount of Support
429015	MO	70,049	$647,960
409016	AR	64,870	$600,067
329018	IN	59,829	$553,419
589008	RI	38,567	$356,802
469024	CO	37,612	$347,915
179021	PA	27,105	$250,723
559019	NV	26,447	$244,635
359138	IA	25,117	$232,379
439056	OK	6,669	$221,639
339043	WI	22,952	$212,306
189014	MD	7,550	$69,838
649004	VI	5,117	$47,335
289034	MS	2,524	$46,917
109016	ME	5,040	$46,623
419035	KS	3762	$34,802
509010	UT	2,702	$24,995
529019	WA	2,454	$22,702
389017	ND	2,028	$18,761
Total		**6,407,814**	**$59,247,854**

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

BACKGROUND

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

PROCEDURES

DPG performed the following procedures:

A. FCC Form 497
DPG obtained and tested the Holding Company's FCC Forms 497 (Form(s) 497) for accuracy by comparing the amounts claimed against the subscriber listings provided by the Holding Company.

B. Program Eligibility Documentation
DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to verify program eligibility. DPG obtained and tested eligibility documentation for a sample of 454 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households
DPG obtained an understanding of the Holding Company's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Holding Company to comply with the Independent Economic Household (IEH) requirements. DPG obtained and tested documentation for a sample of 271 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. NLAD/State Database Validation

DPG obtained the Holding Company's subscriber listings and used computer assisted auditing techniques to analyze the listings and determine whether the number of subscribers claimed each month agreed to the number of eligible subscribers recorded in NLAD or the comparable state database for the same month.

E. Transferred Subscribers

DPG obtained an understanding of the Holding Company's enrollment, certification, and de-enrollment processes relating to the Lifeline Program to determine the steps taken by the Holding Company to transfer (in or out) subscribers. DPG obtained and tested enrollment documentation for a sample of 143 Transferred In subscribers to determine whether the subscribers were transferred in accordance with the Rules. DPG also obtained documentation for all NLAD variances identified in Procedure D above where a subscriber was claimed in a given Form 497 month but listed as Transferred Out in NLAD for the same month.

F. Deceased Subscribers

DPG obtained the Holding Company's subscriber listings and worked with USAC to identify currently deceased subscribers. DPG selected a sample of 135 subscribers who were deceased and were claimed after their date of death. DPG obtained and tested certification, recertification, and usage documentation for these subscribers to determine whether the Holding Company complied with the Rules while continuing to claim the subscriber.

G. Duplicate Subscribers

DPG obtained the Holding Company's subscriber listings and used computer assisted auditing techniques to analyze the listings and determine whether duplicate subscribers where included on the listings. DPG obtained and reviewed Holding Company explanations and copies of eligibility or other documentation to determine whether the subscriber represented a duplicate claim.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.404(b) – Form 497 and NLAD Variance

CONDITION

DPG obtained and analyzed the Holding Company's subscriber data in the National Lifeline Accountability Database (NLAD) to determine whether the Holding Company reported the correct number of qualifying subscribers on the Forms 497.[1] Using the enrollment, transfer in, de-enrollment, and transfer out dates in NLAD, DPG compared the subscribers identified as active in NLAD against the subscribers who were claimed on the Forms 497 during the audit period. DPG identified 4,207 instances for 3,943 subscribers where a subscriber was claimed and was not identified as active in NLAD for the month claimed. Instances by SAC were as follows:

SAC Number	State	Number of Subscribers	Number of Instances
639010	PR	3,267	3,466
269040	KY	256	268
299017	GA	56	70
349030	IL	58	68
249021	SC	54	54
589008	RI	40	40
309018	OH	32	32
409016	AR	31	31
369016	MN	19	22
429015	MO	20	21
319039	MI	19	19
279040	LA	16	18
329018	IN	12	17
339043	WI	10	15
459019	AZ	10	12
469024	CO	4	11
179021	PA	9	9
209016	WV	7	7
359138	IA	7	7
109016	ME	2	4
439056	OK	4	4
189014	MD	3	3
289034	MS	2	3
649004	VI	3	3
389017	ND	1	2
419035	KS	1	1
Total		**3,943**	**4,207**

[1] *See* 47 C.F.R. §§ 54.404(b)(2), (6), (8), (10); 407(a); 417(a) (2016).

DPG further categorized the instances as follows:

Variance Category	Number of Subscribers	Number of Instances
Subscriber was transferred-out in NLAD before the 1st day of the month.	1,859	1,867
Subscriber was enrolled in NLAD after the 1st day of the month.	1,183	1,207
Subscriber was de-enrolled in NLAD before the 1st day of the month.	643	743
Subscriber was transferred-in in NLAD after the 1st day of the month.	209	212
Subscriber did not have a valid NLAD transaction.	49	178
Total	**3,943**	**4,207**

The Holding Company is required to transmit requisite information for each new and existing Lifeline subscriber to NLAD and correspondingly, to update its records for subscribers identified in NLAD as transferred.[2] The Holding Company must also report the number of qualifying subscribers on the Form 497 based on subscribers who have met all requirements to be eligible for Lifeline Program support and for whom the Holding Company provides Lifeline service.[3]

CAUSE

The Holding Company did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497. The Holding Company indicated that for the 1,867 transferred-out instances, it allowed five days to process the transfer to its internal records. The Holding Company also indicated that for the 1,419 instances where subscribers were enrolled or transferred-in to NLAD after the 1st of the month, these subscribers were recorded in its internal records and submitted to NLAD prior to the 1st of the month but were subject to the NLAD dispute resolution process.

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline (2017) – Tribal	$137	$137
Lifeline (2017) – Non-Tribal	$38,878	$38,878
Total	**$39,015**	**$39,015**

DPG calculated the tribal monetary effect by multiplying the four instances where the four tribal subscribers were claimed on the Form 497 and not listed as active in NLAD by the support amount requested on the applicable 2017 Form 497 ($34.25) and rounded to the nearest whole dollar. DPG calculated the non-tribal monetary effect by multiplying the 4,203 instances where the 3,939 non-tribal subscribers were claimed on the Form 497 and not listed as active in NLAD by the support amount requested on the applicable 2017 Form 497 ($9.25) and rounded to the nearest whole dollar.

[2] *See* 47 C.F.R. § 54.404(b)(2), (6), (8), (10) (2016)

[3] *See* 47 C.F.R. § 54.407(a) (2016).

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount recommended in the Effect Section above. DPG is aware that the current 497 claims process has been revised. Therefore, we make no recommendations regarding the NLAD monitoring process.

HOLDING COMPANY RESPONSE

For subscriber categories 1, 2, 4, and 5, Telrite disputes this finding and notes that it has recorded its disputes with similar findings which remain unresolved. See Request for Review by Telrite Corp. of Decision of the Universal Serv. Adm'r, Telrite Corporation's Request for Review (July 16, 2019), denied by Universal Serv. Admin. Co., Administrator's Decision on Lifeline Program Appeal (Nov. 5, 2020) (Telrite intends to appeal the Administrator's decision on or before January 1, 2021). Telrite has provided the auditor with adequate factual and legal support for its disbursement claims. In summary, the processes and rules in place at the time allow ETCs reasonable time to remove subscribers from NLAD after a benefit transfer and subscribers are in NLAD even when dispute resolution is pending which is often due to unreasonable USAC processing delays.

Specifically for the third category of subscribers with 743 instances, Telrite adamantly disputes this finding which has nothing to do with whether funding was received for discounted Lifeline service provided to an eligible subscriber and instead exposes Telrite to additional risks, burdens and financial harms due to errors made by USAC and an outcome caused by USAC's instruction on what Telrite needed to do to fix USAC's errors. Not only does this finding place form over substance (no harm to the Fund is present – despite the misguided financial finding), but it seeks to hold Telrite accountable for a situation caused by USAC and for which USAC should hold itself accountable. Telrite reserves all rights to expand upon the response provided here in a subsequent application for review or appeal.

In December of 2016, the FCC and USAC instituted several changes related to minimum service standards, port freezes, non-usage, rolling recertifications, and other NLAD changes. One of the changes related to rolling recertifications was that USAC began to use a service initiation date to determine when the customer needed to be recertified each year going forward.

In May of 2017, Telrite realized that many of the enrollments that it had performed between December 2016 and March 2017 had the wrong service initialization dates listed in NLAD. This meant that the date the customer needed to recertify was incorrect in NLAD which could cause customers to be out of compliance with the FCC's recertification rules.

At that time, Telrite reached out to USAC to ask if it could update the dates in NLAD to fix the incorrect dates inserted by USAC. Although the errors were made by USAC, USAC's guidance was for Telrite to do a deenroll and then subsequently reenroll each customer to correct the issue (see attached email for guidance from USAC).

When Telrite followed this guidance and tried to do the subsequent reenrolls, the insert into NLAD failed for certain customers due to an issue triggering a requirement for additional proof from those customers. For example, often an IEH form was required when it had not been required at the original signup. In other words, a customer that originally was enrolled in NLAD without any issue, upon attempted reenroll was failing for a condition that didn't exist when the customer originally enrolled. Of course, Telrite didn't have the newly required documents because they were not required at the original point of enrollment. The only reason Telrite was required to provide new consumer documents at that point was because Telrite followed USAC's inappropriately short sighted and burden-shifting guidance to clean up USAC's data errors caused by an apparent logic error in USAC's programming (which appears to have been fixed prospectively after Telrite brought the issue to USAC's attention).

While Telrite appreciates the professionalism of the auditor here, Telrite respectfully submits that auditing over three-year old claims and repeating findings which are subject to pending legal review is inefficient and wasteful for all involved. Moreover, the 0.01% error rate asserted in the findings here should be recognized as de minimis.

DPG RESPONSE

DPG performed its initial variance analysis using the NLAD snapshot reports generated the first day of the month. We removed all variances that resulted from NLAD activity recorded on the first day of the month where it was not reasonable to expect the holding company to reflect the activity as part of its internal snapshot. We maintain that for the five categories identified in the Condition section and reflected below, NLAD transaction activity was provided to the Holding Company as of the last day of the month that indicated an update was needed to the Holding Company's internal records.

1. Subscriber was transferred-out in NLAD before the 1st day of the month
2. Subscriber was enrolled in NLAD after the 1st day of the month
3. Subscriber was de-enrolled in NLAD before the 1st day of the month
4. Subscriber was transferred-in in NLAD after the 1st day of the month
5. Subscriber did not have a valid NLAD transaction

With regard to category 3, DPG evaluated the subscribers in this variance category based on their submission for de-enrollment by the Holding Company and completed de-enrollment before the 1st day of the month. Our expectation being that if the Holding Company submitted a subscriber for de-enrollment in NLAD, it would reflect a corresponding removal in its internal records. We understand the elements of the scenario presented by the Holding Company for these subscribers but we are not in a position to determine whether those elements form an acceptable reason for continuing to claim the subscribers after NLAD de-enrollment. We have provided the related support to USAC program management for their consideration in the determining the recovery amount pursued.

DPG considered both quantitative and qualitative factors when establishing the de minimis level for the audit. The level established was intended to include as findings, conditions where consistent non-compliance of the same type is occurring. Addressing the root cause of these conditions eliminates the potential for them to expand and have a larger impact, cumulatively or individually, in future periods. The monetary effect identified within the Effect section above exceeded our threshold for de minimis errors.

For the reasons above, we maintain our position that the Holding Company did not have an adequate system in place for monitoring NLAD data to report the correct number of qualifying Lifeline subscribers on the Form 497 and that there were 4,207 instances where a subscriber was claimed and was not identified as active in NLAD for the month claimed.

Finding #2: 47 C.F.R. § 54.407(a) – Form 497 and State Database Variance

CONDITION

DPG obtained and analyzed the Holding Company's subscriber data listed in the applicable monthly state database reports to determine whether the Holding Company reported the correct number of qualifying eligible subscribers on its 2017 Forms 497.[4] DPG identified 573 instances for 550 subscribers where the subscriber was claimed on the Form 497 and was not identified as eligible for the applicable month in the 2017 Low-Income Discount Administrator (LIDA) database information provided by the Public Utility Commission of Texas (PUCT).

Because the PUCT informs the Holding Company of qualifying monthly low-income consumers via the monthly LIDA report, subscribers not listed as eligible on the report should not be included in the internal records used by the Holding Company as the basis for its corresponding monthly Form 497 claim.[5]

CAUSE

The Holding Company did not have an adequate system in place for removing subscribers from its Form 497 claim who were not identified as eligible by the state Public Utilities Commission (PUC).

EFFECT

Support Type	Monetary Effect	Recommended Recovery
Lifeline (2017)	$5,300	$5,300

DPG calculated the monetary effect by multiplying the 573 instances where the 550 subscribers were claimed on the Form 497 and not identified as eligible in the LIDA database by the support amount requested on the applicable 2017 Form 497 ($9.25) and rounded to the nearest whole dollar.

RECOMMENDATION

DPG recommends that USAC management seek recovery of the amount identified in the Effect section above. DPG also recommends that the Holding Company implement an adequate system to remove subscribers from its Form 497 claim who are not identified as eligible in the corresponding state database.

HOLDING COMPANY RESPONSE

Telrite disputes this finding as it is based on erroneous factual findings and invalid assertions about the so-called LIDA database. In each case where Telrite made a claim, it had documentation confirming the subscriber's eligibility. LIDA's invalid assertions about which of its eligibility determinations can be relied on are presently the subject of a pending petition for declaratory ruling before the Federal Communications Commission. National Lifeline Association Emergency Petition for Declaratory Ruling Revoking Texas' National Lifeline Accountability Database Opt-Out Certification Approval and Other Relief, WC Docket No. 11-42, et al. (filed June 3, 2020). The same issue also is the subject of a pending Telrite audit appeal which remains undecided. See Request for Review by Telrite Corp. of Decision of the Universal Serv. Adm'r (filed Sept. 14. 2020).

While Telrite appreciates the professionalism of the auditor here, Telrite respectfully submits that auditing over

[4] *See* 47 C.F.R. §§ 54. 407(a), 417(a) (2016).

[5] *See* Texas Admin Code §§ 26.412(g)(2)(A)(iii) and (iv) (2016).

three-year old claims and repeating findings which are subject to pending legal review is inefficient and wasteful for all involved. Moreover, the 0.01% error rate asserted in the findings here should be recognized as de minimis.

DPG RESPONSE

DPG coordinated its audit effort with the PUCT to understand the methods by which eligible subscribers are determined. As provided for in Texas Admin Code § 26.412(g)(2)(A)(iii) and (iv) the PUCT confirmed that final eligibility is determined via a process where the Holding Company submits a file of residential customers for review by the LIDA each month. Upon completion of its review, the LIDA provides an updated file identifying the subscribers eligible to receive support for the applicable month. DPG understands that interim approval is provided at the time subscribers submit their application. However, final eligibility determination is established by the monthly LIDA file. DPG performed its audit procedures consistent with the above process when identifying subscribers who were not eligible based on the LIDA database.

DPG considered both quantitative and qualitative factors when establishing the de minimis level for the audit. The level established was intended to include as findings, conditions where consistent non-compliance of the same type is occurring. Addressing the root cause of these conditions eliminates the potential for them to expand and have a larger impact, cumulatively or individually, in future periods. The monetary effect identified within the Effect section above exceeded our threshold for de minimis errors.

For the reason above, we maintain our position that the Holding Company did not have an adequate system in place for removing subscribers from its Form 497 claim who were not identified as eligible by the state PUC and that there were 573 instances where a subscriber was claimed on the Form 497 and was not identified as eligible for the applicable month in the 2017 LIDA reports prepared by the PUCT.

CRITERIA

Finding	Criteria	Description
#1, #2	47 C.F.R. § 54.407(a) (2016)	"(a) Universal service support for providing Lifeline shall be provided directly to an eligible telecommunications carrier based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month."
#1, #2	47 C.F.R. § 54.417(a) (2016)	"Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in … [47 C.F.R. §] 54.410(d) and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years."
#1	47 C.F.R. § 54.404(b) (6), (8), (10) (2016)	"(b) *The National Lifeline Accountability Database*. In order to receive Lifeline support, eligible telecommunications carriers operating in states that have not provided the Commission with approved valid certification pursuant to paragraph (a) of this section must comply with the following requirements: … (6) Eligible telecommunications carriers must transmit to the Database in a format prescribed by the Administrator each new and existing Lifeline subscriber's full name; full residential address; date of birth and the last four digits of the subscriber's Social Security number or Tribal Identification number, if the subscriber is a member of a Tribal nation and does not have a Social Security number; the telephone number associated with the Lifeline service; the date on which the Lifeline service was initiated; the date on which the Lifeline service was terminated, if it has been terminated; the amount of support being sought for that subscriber; and the means through which the subscriber qualified for Lifeline…. (8) All eligible telecommunications carriers must update an existing Lifeline subscriber's information in the Database within ten business days of receiving any change to that information, except as described in paragraph (b)(10) of this section…. (10) When an eligible telecommunications carrier de-enrolls a subscriber, it must transmit to the Database the date of Lifeline service de-enrollment within one business day of de-enrollment."
#2	Texas Admin Code § 26.412(g)(2)(A)(iii) and (iv) (2016)	"(2) Obligations of Lifeline Providers (A) A Lifeline provider shall only provide Lifeline Services to all eligible customers identified by the LIDA within its service area in accordance with this section. (iii) Monthly, all ETCs, ETPs RETPs, and certificated providers providing telephone services in Texas must provide a file of its residential customers in a format and date determined by LIDA, for Lifeline processing….

Finding	Criteria	Description
		(iv) Upon receipt of the monthly update provided by the LIDA, a Lifeline provider shall begin reduced billing for those qualifying low-income customers subscribing to services within 30 days.”