High Cost and Low Income Committee Meeting

Audit Reports Briefing Book

Monday, October 30, 2023

Available for Public Use

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of High Cost Support Mechanism Beneficiary Audit Report Released: July 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
North Dakota Telephone Company **Attachment A**	0	• Not applicable.	$1,320,816	$0	$0	N/A
Total	**0**		**$1,320,816**	**$0**	**$0**	

Attachment A

HC2023LR025

Available For Public Use

North Dakota Telephone Company

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

Prepared For:

Universal Service Administrative Company

May 26, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

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EXECUTIVE SUMMARY

May 26, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of North Dakota Telephone Company (Beneficiary), study area code **381447** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2021. CLA conducted the audit field work from January 31, 2023, to May 26, 2023.

We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
May 26, 2023

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified no significant findings.

USAC MANAGEMENT RESPONSE

Not Applicable

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in North Dakota. The Beneficiary and its affiliated entities provide non-regulated services including internet, phone service, and television.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The 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.
- Rate-of-return ILEC Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.
- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

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

SCOPE
The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
CAF Intercarrier Compensation (ICC)	2019-2020	2021	$1,320,816
		Total	**$1,320,816**

PROCEDURES
We performed the following procedures:

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

B. High Cost Program Process
We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

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

Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: August 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Ben Lomand Rural **Attachment B**	2	• No significant findings.	$8,225,920	($2,609)	$0	N
South Slope Cooperative Communications **Attachment C**	1	• Inaccurate Depreciation Calculation. The Beneficiary used inappropriate depreciation methodology and depreciation amounts were not accurate.	$8,068,786	($126,532)	$0	N
Puerto Rico Telephone Company d/b/a Verizon Wireless Puerto Rico **Attachment D**	0	• No significant findings.	$5,708,588	$0	$0	N/A
Wamego Telephone Company **Attachment E**	3	• Inaccurate Loop Counts. The Beneficiary understated Total Loops and Category 1.3 Loops when compared to source documentation.	$7,462,911	($74,198)	$0	N
Total	**6**		**$29,466,205**	**($203,339)**	**$0**	

Attachment B

HC2021LR013

Ben Lomand Rural
Audit Reference ID: HC2021LR013
(SAC No.: 290553)

Performance audit for the Universal Service High Cost Program - Disbursements made during the twelve-month period ended December 31, 2019

Prepared for: Universal Service Administrative Company

As of Date: 8/4/2023

KPMG LLP
1021 E Cary St #2000
Richmond, VA 23219

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KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

EXECUTIVE SUMMARY

August 4, 2023

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 objective relative to Ben Lomand Rural, Study Area Code ("SAC") No. 290553, ("Ben Lomand" or "Beneficiary") for disbursements of $8,225,920 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019. Our work was performed during the period from September 20, 2021 to August 4, 2023, and our results are as of August 4, 2023.

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

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

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 High Cost Program (collectively, the "FCC Rules") relative to disbursements, of $8,225,920, made from the High Cost Program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility was to evaluate the Beneficiary's compliance with the FCC Rules as outlined in the Scope and Procedures sections of this report.

As our report further describes, KPMG identified two 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 High Cost program for the twelve-month period ended December 31, 2019 were $2,609 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 findings that are not significant within the context of the audit objective but warrant the attention of those charged with governance. We reported these findings to the Beneficiary's management in a separate letter dated August 4, 2023.

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

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

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
Ben Lomand	Ben Lomand Rural
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
COE	Central Office Equipment
CPR	Continuing Property Record
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
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
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]				Recommended Recovery
	HCL	CAF BLS	CAF ICC	Total	
HC2021LR013-F01: 47 C.F.R. Part 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation – The Beneficiary used ending month balances, instead of average monthly balances, to compute depreciation expense.	$507	$0	N/A	$507	$507
HC2021LR013-F02: 47 C.F.R. §32.2(a),(b) and 47 C.F.R. § 32.6512(b) – Improper Allocation of Overhead Costs – Beneficiary improperly cleared overhead expense amounts based on direct labor hours rather than costs of materials.	($3,116)	$0	N/A	($3,116)	$0
Total Net Monetary Effect	($2,609)	$0	N/A	($2,609)	$507

[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 for SAC 290553, for the High Cost Program support. The Beneficiary must also implement policies and procedures necessary to comply with the Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	**BLS (B)**	**CAF ICC (C)**	**USAC Recovery Action (A) + (B) + (C)**	**Rationale for Difference (if any) from Auditor Recommended Recovery**
Finding #1	$507	-	N/A	$507	N/A
Finding #2	($3,116)	-	N/A	($3,116)	N/A
Mechanism Total	**($2,609)**	**-**	**N/A**	**($2,609)**	**N/A**

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

BACKGROUND, OBJECTIVE, 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. USAC administers the USF through four support mechanisms: High Cost, Lifeline, Rural Health Care, and Schools and Libraries. With these four support mechanisms, the FCC strives to 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 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 High Cost Program provides support for telecommunications companies (Beneficiaries) that offer services to consumers in less-populated areas. Several legacy High Cost Program 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 sub-component:
    a. 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 obtain eligible recovery that is not recovered by the ARC to the end user.
3. CAF BLS: CAF BLS provides support for voice and broadband service, including stand-alone broadband. CAF BLS provides support to the extent that their consumer broadband revenue requirements exceed their imputed consumer broadband revenues. CAF BLS replaced ICLS effective July 1, 2016.

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 High Cost Program relative to disbursements, of $8,225,920, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Ben Lomand Rural (SAC No. 290553), the subject of this performance audit, is a rural ILEC located in McMinnville, Tennessee and serves over 25,000 customers in the state of Tennessee. The Beneficiary provides broadband and voice services.

The Beneficiary operated as Average Schedule company in 2017 and prior years; and transitioned to a cost company as of January 1, 2018. For the purposes of filings and calculations of disbursements for CAF BLS for the year ended December 31, 2019, Ben Lomand reported solely as an average schedule company as it relates to 2017 data. However, Ben Lomand was solely a cost company in regards to the HCL dash filings relative to disbursements for the 12 months ended December 31, 2019 (2018-2, 2018-3, 2018-4) and the CAF ICC filings related to 2017 and 2018 data, as further noted below.

Ben Lomand Rural is the parent company of Ben Lomand Holdings, Inc. Ben Lomand Holdings is a telecommunication company operating in Tennessee and it is the sole member of Ben Lomand Communications, LLC., Volunteer First Services, LLC., and Volunteer Wireless, LLC.

Through its wholly owned subsidiaries, Ben Lomand Holdings provides broadband, voice, digital video, and security services.

In the table below, we show the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2019 by High Cost support type:

High Cost Support	Disbursement Amount
CAF BLS	$6,301,554
CAF ICC	$738,276
HCL	$1,186,090
Total	**$8,225,920**

Source: USAC

In addition to the above, the Beneficiary also received $92,392 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

The Beneficiary received High Cost support during the twelve-month period ended December 31, 2019, based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2018-1, 2018-2, 2018-3, and 2018-4 HCL Forms, based on the twelve-month periods ended December 31, 2017, March 31, 2018, June 30, 2018, and September 30, 2018, respectively,
- 2018 FCC Form 509, based on calendar year 2017 data, and
- 2018 CAF ICC Form, based on program year 2017 data

In the above referenced forms, the High Cost Program beneficiaries provide 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). In addition, the Beneficiary must submit certain annual investment data, including the categorization of COE and C&WF on the High Cost Program forms.

OBJECTIVE

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 High Cost Program relative to disbursements, of $8,225,920, made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost Program forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost Program 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 High Cost Program forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to

disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019.[2]

KPMG identified the following areas of focus for this performance audit:[3]

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

PROCEDURES

1. Materiality Analysis

For applicable High Cost Program forms, KPMG obtained the forms submitted for the periods ended December 31, 2017, March 31, 2018, June 30, 2018, and September 30, 2018, input the information into KPMG's High Cost Program 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.

2. Reconciliation

KPMG obtained the audited 2017 and 2018 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 High Cost Program forms.

3. Assets

KPMG compared Ben Lomand's asset records reported in the G/L with the Beneficiary's CPR details to determine whether the Beneficiary maintained and reported accurate asset records. KPMG noted the Beneficiary did not keep sufficient CPR details for records prior to 2017 as the Beneficiary was operating as an Average Schedule Company during that time. KPMG attempted to obtain additional documentation from the Beneficiary to resolve the variance, but the Beneficiary was unable to accommodate this request. The Beneficiary began to document

[2] Although the Beneficiary received CAF BLS funds, the deployment obligation for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.

[3] If exceptions (instances of material noncompliance with the FCC Rules) 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.

sufficient CPR details when it converted to a Cost Company in 2018. KPMG noted the Beneficiary considerably reduced the variance between G/L and the CPR details while assessing the records for 2018.

KPMG utilized a monetary unit sampling (MUS)[4] methodology, considering tolerable rate of error and confidence level, to select samples from material accounts identified in the relevant High Cost Program forms, which resulted in 29 asset sample items. We made asset selections from CPR details, and material accounts included COE, C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by 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.

4. **Expenses**

   KPMG utilized a monetary unit sampling methodology, considering tolerable rate of error and confidence level, to select an expense sample, including payroll, from material operating expense accounts identified in the relevant High Cost Program forms. This resulted in a sample of 29 expense transactions. KPMG judgmentally added 3 expense transactions for a total of 32 transactions to ensure all material expense accounts across the difference filings were included in our sample. We agreed expense amounts to the supporting documentation such as invoices and reviewed them for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

   For the relevant High Cost Program forms (HCL, CAF BLS, and CAF ICC) completeness of reported accounts were assessed via reconciliations to the audited financial statements via the 'Reconciliation' process described above. Irreconcilable items were discussed with the Beneficiary and support obtained to resolve differences.

6. **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.

7. **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.

8. **Overheads**

   KPMG performed a walkthrough of the overhead allocation and clearing process related to work orders and payroll for 2017and 2018. Additionally, we reviewed overhead clearing reports for the entire year and reviewed the overhead clearance process for compliance with Part 32 requirements.

[4] Monetary unit sampling (MUS) is a random-based sampling approach based on monetary fixed interval across the dollar values in the population.

9. **Taxes**

KPMG determined the Beneficiary is a Tax-Exempt Cooperative entity for tax filling purposes, noting that for 2017and 2018, the Beneficiary filed a Corporate Tax Return – Form 990, a tax-exempt alternative for the legal entity. KPMG performed an evaluation of the applicable forms and determined that only property taxes were included in the regulatory forms for High Cost Program support.

10. **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.

11. **Affiliate Transactions**

KPMG performed procedures to assess the reasonableness of affiliate transactions that included telephone bills, voice and internet bills, executive compensation, and leased real properties that occurred during 2017 and 2018. These procedures included determining the population of affiliate transactions through inquiry along with reviewing the audited financial statements, trial balance, and intercompany accounts, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. We assessed the Beneficiary's transactions reported in the G/L, including transactions related to the affiliates. For the nine transactions selected through attribute sampling, 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.

12. **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 High Cost Program 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.

13. **Revenue Requirement**

KPMG validated accuracy of the Beneficiary's calculation of its revenue requirement by confirming data inputs and completing recalculation procedures.

14. **Exchanges**

KPMG obtained and examined general exchanges tariffs and other related documentation to determine whether the Beneficiary reported the accurate number of exchanges.

RESULTS

KPMG's performance audit results include two findings, recommendations and Beneficiary responses regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of the findings relative to Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules, applicable to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

Through its audit, KPMG identified two findings and details the findings, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR013-F01: 47 CFR Part 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG inspected the G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used ending month balances, instead of average monthly balances, to compute depreciation expense as prescribed by FCC Rules[5] for the period of January 1, 2017 to September 30, 2018.

KPMG summarized the net differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month periods ended December 31, 2017, impacting the 2017 Form 509; March 31, 2018, impacting the 2018-2 HCL Form; June 30, 2018, impacting the 2018-3 HCL Form; and September 30, 2018, impacting the 2018-4 HCL Form, below:

Account Description	Variance December 31, 2017	Variance March 31, 2018	Variance June 30, 2018	Variance September 30, 2018
Account 3100 (2110): Accumulated Depreciation - General Support Assets	$23,560	$19,253	$13,541	$21,565
Account 3100 (2230): Accumulated Depreciation - Central Office Transmission Equipment	($4,671)	($5,210)	($5,311)	($5,345)
Account 3100 (2410): Accumulated Depreciation – C&WF	($9,268)	($11,894)	($12,185)	($15,067)
Account 6560 (2110): Depreciation and Amortization Expense – General Support Assets	$23,560	$19,253	$13,541	$21,565
Account 6560 (2230): Depreciation and Amortization Expense – Central Office Transmission Equipment	($4,671)	($5,210)	($5,311)	($5,345)
Account 6560 (2410): Depreciation and Amortization Expense – C&WF	($9,268)	($11,894)	($12,185)	($15,067)

Note: Negative amounts noted above represent an overstatement of the account balance and positive amounts represent an understatement of the account balance.

CAUSE

The Beneficiary did not have adequate processes in place governing the proper calculation of depreciation using the appropriate methodology as prescribed by FCC Rules.

[5] *See* 47 C.F.R. §§ 32.2000(g)(2)(iii), 32.3100 and 32.6560 (2017) in the criteria section of the report.

EFFECT

KPMG calculated the monetary impact of this finding by considering the variances and twelve-month periods noted in the “Condition” above to the following accounts: adding $23,560, $19,253, $13,541, and $21,565 to Accumulated Depreciation – General Support Assets; and Depreciation and Amortization Expense – General Support Assets; subtracting $4,671, $5,210, $5,311, and $5,345 from Accumulated Depreciation – Central Office Transmission Equipment and Depreciation and Amortization Expense – Central Office Transmission Equipment; and subtracting $9,268, $11,894, $12,185, and $15,067 from Accumulated Depreciation – Cable and Wire Facilities, and Depreciation and Amortization Expense – C&WF. This resulted in an over-payment of $507 which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019 below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$507
CAF BLS	$0
CAF ICC	N/A
Total	$507

RECOMMENDATION

KPMG recommends the USAC Program recovers the $507 as noted in the Effect Section above.

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

See Appendix A for Beneficiary Response letter.

HC2021LR013-F02: 47 CFR Part 32.2(a),(b) and 47 CFR Part 32.6512(b) – Improper Allocation of Overhead Costs

CONDITION

KPMG examined the overhead clearing reports for the month ended May 31, 2017 and determined that the Beneficiary improperly cleared overhead expense amounts from Account 6510 - Provisioning Expense based on direct labor hours rather than costs of materials. Upon reallocation with the correct method, as noted below, it was noted non-regulated direct labor hours were charged during the month ended May 31, 2017, but no materials were utilized related to non-regulated projects.

Account 6510 – Provisioning Expense

Overhead Expense Account	Incorrect Allocation Method - Direct Labor Hours Allocated Amount ($)	Correct Allocation Method - Materials and Costs Allocated Amount ($)	Variance ($)
1280 - Prepaid Expenses	$0	$11	$11
2003 - Plants Under Construction	$4,091	$28,381	$24,290
6110 - Network Support Expense	$10,601	$1,125	($9,476)
6120 - General Support Expense	$2,173	$0	($2,173)
6210 – COE Switching Expense	$896	$0	($896)
6230 – COE Transmission Expense	$2,487	$27	($2,460)
6410 - C&WF Expense	$8,361	$65	($8,296)
Non-regulated expense	$1,000	$0	($1,000)
Total	**$29,609**	**$29,609**	**$0**

CAUSE

The preparation, review, and approval processes governing the clearing of overhead amounts did not detect the allocation of amounts based on incorrect Part 32 allocation base.

EFFECT

KPMG calculated the monetary impact of this finding by considering the variances noted in the "Condition" above to the following accounts: adding $24,290 to Plants Under Construction; subtracting $9,476 from Network Support Expense; subtracting $2,173 from General Support Expense, subtracting $896 from COE Switching Expense; subtracting $2,460 from COE Transmission Expense; and subtracting $8,296 from C&WF Expense. This resulted in an under-payment of $3,116, which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019 below:

Support Type	Monetary Effect
HCL	($3,116)
CAF BLS	$0
CAF ICC	N/A
Total	**($3,116)**

RECOMMENDATION

As the above finding represents an underpayment, the total recommended recovery is zero, as USAC policy is not to issue support in the case of a net underpayment. Thus, KPMG recommends recovery of $0.

KPMG recommends that the Beneficiary evaluate and update the methodology used for clearing overhead via the appropriate method. 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-ontributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

See Appendix A for Beneficiary Response letter.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. §32.2000(g)(2) (iii) (2017)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."
#1	47 C.F.R. § 32.3100 (2017)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#1	47 C.F.R. § 32.6560 (2017)	"Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6561 through 6565."
#2	47 C.F.R. §32.2(a),(b) (2017)	"(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure. (b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers."
#2	47 C.F.R. § 32.6512(b) (2017)	"Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge."

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of the FCC Rules relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, KPMG identified two findings related to Inaccurate Deprecation Calculation and Improper Allocation of Overhead Costs.

KPMG estimates the monetary impact of the two findings is as follows:

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	($2,609)
CAF BLS	$0
CAF ICC	$0
Total Impact	($2,609)

KPMG recommends that the Beneficiary enhance approval processes governing the calculation of depreciation and evaluate and update the methodology used for clearing overhead costs via the appropriate method as prescribed by FCC Rules.

APPENDIX A

BEN LOMAND
CONNECT

June 16, 2023

Katie Krueger
Advisory Director
KPMG LLP
1021 E Cary St # 2000
Richmond, VA 23219

Dear Ms. Krueger,

We have reviewed your audit report, dated June 13, 2023, reference # HC2021LR013, for Ben Lomand Rural Telephone Cooperative's Universal Service High Cost disbursements for the year ended December 31, 2019. We believe the report is accurate and we agree with your findings.

With regards to the two findings contained in the report, we have made the necessary changes in our software to correct our monthly depreciation expense calculation. Also, we are currently in the process of correcting our monthly provisioning allocation methodology.

We would like to thank you and your team at KPMG for always being courteous and professional during this process. Please feel free to contact me anytime if any additional information regarding the audit is needed.

Sincerely,

Jared Sain

Jared Sain
Chief Financial Officer
Ben Lomand Rural Telephone Cooperative, Inc.

311 North Chancery Street • P. O. Box 670 • McMinnville, Tennessee 37111
931.668.4131 • Toll Free: 800.974.7779 • www.benlomandconnect.com

** This concludes the audit report.**

Attachment C

HC2021LR014

South Slope Cooperative Communications
Audit Reference ID: HC2021LR014
(SAC No.: 351298)

Performance audit for the Universal Service High Cost Program - Disbursements made during the twelve-month period ended December 31, 2019

Prepared for: Universal Service Administrative Company

As of Date: 8/8/2023

KPMG LLP
1021 East Cary Street #2000
Richmond, VA 23219

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KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

EXECUTIVE SUMMARY

August 8, 2023

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 South Slope Cooperative Communications, Study Area Code ("SAC") No. 351298 ("South Slope" or "Beneficiary") for disbursements of $8,068,786 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019. Our work was performed during the period from September 16, 2021 to August 8, 2023, and our results are as of August 8, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for 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.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

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 High Cost Program (collectively, the " FCC Rules") relative to disbursements, of $8,068,786, made from the High Cost Program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules as outlined in the Scope and Procedures sections of this report.

As our report further describes, KPMG identified one finding 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 High Cost program for the twelve-month period ended December 31, 2019 were $126,532 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.

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

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

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
CLEC	Competitive Local Exchange Carrier
COE	Central Office Equipment
CPR	Continuing Property Record
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
GSA	General Support Assets
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
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
South Slope	South Slope Cooperative Communications
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]				
	HCL	CAF BLS	CAF ICC	SVS	Total
HC2021LR029-F01: 47 C.F.R. § 32.2000(g)(2)(iii) (2017) - Inaccurate Depreciation Calculation – The Beneficiary used per-unit depreciation for General Support Assets versus mass asset depreciation and other variances were identified; as a result, the trial balance noted remaining depreciation on the account, but such depreciation was not recorded in the accumulated depreciation and depreciation expense accounts.	$21,165	($147,697)	$0	$0	($126,532)
Total Net Monetary Effect	$21,165	($147,697)	$0	$0	($126,532)

[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 for SAC 351298, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	BLS (B)	CAF ICC (C)	SVS (D)	USAC Recovery Action (A) + (B) + (C) + (D)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$21,165	($147,697)	$0	$0	($126,532)	N/A
Mechanism Total	**$21,165**	**($147,697)**	**$0**	**$0**	**($126,532)**	**N/A**

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

BACKGROUND, 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. USAC administers the USF through four support mechanisms: High Cost, Lifeline, Rural Health Care, and Schools and Libraries. With these four support mechanisms, the FCC strives to 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 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 High Cost Program provides support for telecommunications companies (Beneficiaries) that offer services to consumers in less-populated areas. Several legacy High Cost Program 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 sub-component:
   a. 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 the ARC to the end user.
3. 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.

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 High Cost Program relative to disbursements, of $8,068,786, made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

South Slope Cooperative Communications (SAC No. 351298), the subject of this performance audit, is a provider of telecommunications services located in North Liberty, IA that serves over 6,000 customers in Eastern Iowa. South Slope provides local access services; long distance, internet, wireless, and video; and telecommunications equipment.

South Slope acquired the Amana exchange in 2001 and receives SVS support on the exchange.

In the table below, we show the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2019 by High Cost fund type:

High Cost Support	Disbursement Amount
CAF BLS	$6,535,572
CAF ICC	$217,056
HCL	$1,265,538
SVS	$50,620
Total	$8,068,786

Source: USAC

In addition to the above, the Beneficiary also received $39,498 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

The Beneficiary received High Cost support during the twelve-month period ended December 31, 2019, based on the following annual financial and operational data submitted by the Beneficiary to NECA and USAC:

- 2018-1 HCL Form, based on the twelve-month periods ended December 31, 2017
- 2018 FCC Form 509, based on calendar year 2017 data,
- 2018 CAF ICC Form, based on program year 2017 data, and
- 2018 SVS form, based on program year 2017 data.

In the above referenced forms, the High Cost Program beneficiaries provide 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 must submit certain annual investment data, including the categorization of COE and C&WF on the High Cost Program 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 High Cost Program relative to disbursements, of $8,068,786, made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost Program forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost Program 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 High Cost Program forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to

disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019.[2]

KPMG identified the following areas of focus for this performance audit:[3]

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

PROCEDURES

1. Materiality Analysis

For applicable High Cost Program forms, we obtained the forms submitted for the period ended December 31, 2017, input the information into KPMG's High Cost Program 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.

2. Reconciliation

KPMG obtained the audited 2017 financial statements and reconciled to the G/L, from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost Program forms.

3. Assets

KPMG utilized a monetary unit sampling ("MUS")[4] methodology considering tolerable rate of error and confidence level to select samples from material accounts identified in the relevant High Cost Program forms, which resulted in 29 asset samples. We made asset selections from CPR details, and material accounts included COE, C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll

[2] Although the Beneficiary received CAF BLS funds, the deployment obligation for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.
[3] If exceptions (instances of material noncompliance with the FCC Rules) 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.
[4] MUS is a random-based sampling approach based on monetary fixed interval across the dollar values in the population.

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.

4. **Expenses**

   KPMG utilized MUS methodology considering tolerable rate of error and confidence level to select samples including payroll from material operating expense accounts identified in the relevant High Cost Program form, and added two samples to cover off on all material accounts, which resulted in 31 expense samples. We agreed expense amounts the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

   For the relevant High Cost Program forms (HCL, CAF BLS, CAF ICC and SVS), the completeness of reported accounts was assessed via reconciliations to the audited financial statements performed per the 'Reconciliation' process described above. Irreconcilable items were discussed with the Beneficiary and support obtained to resolve differences.

6. **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.

7. **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. We also sampled two newer C&WF routes and validated active subscribers on the routes during the period under audit.

8. **Overheads**

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

9. **Taxes**

   KPMG determined the Beneficiary is a Tax-Exempt Cooperative entity for tax filling purposes, noting that for 2017, the Beneficiary filed a Corporate Tax Return – Form 990, a tax-exempt alternative for the legal entity. KPMG performed an evaluation of the applicable forms and determined that only property taxes were included in the regulatory forms for High Cost Program support.

10. **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.

11. Affiliate Transactions

KPMG concluded that the beneficiary had no affiliates for the year 2017, but reviewed transactions with the CLEC and non-regulated division under the Part 64 allocations testing. As such, KPMG did not perform procedures to assess the reasonableness of affiliate transactions that occurred during 2017. These procedures would have 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.

12. 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 High Cost Program 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.

13. Revenue Requirement

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

RESULTS

KPMG's performance audit results include the finding, recommendation and Beneficiary response regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of the finding relative to Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules, applicable to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

Through its audit, KPMG identified one finding and details the finding, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR014-F01: 47 C.F.R. § 32.2000(g)(2)(iii)- Inaccurate Depreciation Calculation

CONDITION

KPMG obtained and examined the Beneficiary's G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used average monthly balances to compute depreciation expense for most asset accounts, as prescribed by FCC Rules for the period of January 1, 2017 through December 31, 2017. However, depreciation expense for GSA (general support assets) was calculated using the per-unit depreciation method rather than the mass depreciation method, and other variances were identified; as a result, the trial balance noted remaining depreciation on the account, but such depreciation was not recorded in the accumulated depreciation and depreciation expense accounts. KPMG noted that the Beneficiary did not acquire approval for use of the per-unit depreciation method from the FCC.

The differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2017, impacting the 2018-1 HCL Form and the Form 509 for South Slope[5], are as follows:

Account Description	For the 12 months ended December 31, 2017 – South Slope ILEC – $ Variance
Account 3100 (2100): Accumulated Depreciation -General Support Assets and Account 6560 (2100) Depreciation Expense – General Support Assets	$220,055
Account 3100 (2210): Accumulated Depreciation -Central Office Switching Equipment and Account 6560 (2230): Depreciation Expense - Central Office Switching Equipment	($4,604)
Account 3100 (2230): Accumulated Depreciation -Central Office Transmission Equipment and Account 6560 (2230): Depreciation Expense -Central Office Transmission Equipment	$3,970

[5] KPMG noted variances of $8,150 and $127 associated with the Amana exchange SVS support for depreciation of GSA and Central Office Transmission equipment, respectively, for the 12 months ended December 31, 2017. Through discussions with USAC Management, it was decided that such variances would not be included in the table above or the "Effect" section on the following page given the insignificant impact on total disbursements and the level of effort required to recalculate their impact on the SVS support reimbursement (noting GSA does not impact HCL or SVS support and a pre-form amount of $127 would result in a minimal effect).

Account Description	For the 12 months ended December 31, 2017 – South Slope ILEC – $ Variance
Account 3100 (2410): Accumulated Depreciation - C&WF and Account 6560 (2410): Depreciation Expense – C&WF	$76,696

CAUSE

The Beneficiary did not have adequate processes in place to validate appropriate depreciation methodology was applied in conformance with FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding or subtracting the variances noted in the “Condition” section above to the appropriate accounts in the Beneficiaries High Cost program filings as follows:

- Adding $220,055 to Accumulated Depreciation – Land and General Support Assets and to Depreciation Expense – Land and Support Assets;
- Adding $3,970 to Accumulated Depreciation – Central Office Transmission Equipment and to Depreciation Expense – Central Office Transmission Equipment;
- Adding $76,696 to Accumulated Depreciation – C&WF and to Depreciation Expense – C&WF; and
- Subtracting $4,604 from Accumulated Depreciation – Central Office Switching Equipment and from Depreciation Expense – Central Office Switching Equipment.

This resulted in an under-payment of $126,532 which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019 below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$21,165
CAF BLS	($147,697)
CAF ICC	$0
SVS	$0
Total	($126,532)

RECOMMENDATION

As the above finding represents an underpayment, the total recommended recovery is zero, as USAC policy is not to issue support in the case of a net underpayment. Thus, KPMG recommends recovery of $0.

KPMG recommends the Beneficiary enhance the preparation, review and approval processes governing the calculation of depreciation 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

South Slope acknowledges the above finding and is correcting the depreciation calculation to use the monthly average balance mass depreciation method in the accounting system for the remainder of 2023 and future years.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(iii) (2017)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."
#1	47 C.F.R. § 32.2000(g)(2)(iv) (2017)	"In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section."
#1	47 C.F.R. § 32.3100 (2017)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#1	47 C.F.R. § 32.6560 (2017)	"Depreciation and amortization expenses. Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6561 through 6565.."

CONCLUSION

As discussed in detail above, our evaluation of the Beneficiary's compliance with the applicable requirements of the FCC Rules relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019 identified a Depreciation expense finding.

KPMG estimates the monetary impact of this finding is as follows:

Fund Type	**Monetary Impact Overpayment (Underpayment)**
HCL	$21,165
CAF BLS	($147,697)
CAF ICC	$0
SVS	$0
Total Impact	($126,532)

KPMG recommends that the Beneficiary enhance the preparation, review, and approval processes governing the calculation of depreciation to ensure the appropriate depreciation method is utilized in compliance with FCC Rules.

** This concludes the audit report.**

Attachment D

HC2022LR032

Available For Public Use

Puerto Rico Telephone Company d/b/a Verizon Wireless Puerto Rico

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

USAC Audit No. HC2022LR032

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Available for Public Use

EXECUTIVE SUMMARY

March 17, 2023

Ms. Wanda Lopez Sanchez
Puerto Rico Telephone Company, Inc. d/b/a Verizon Wireless Puerto Rico
390 A Street Julia Industrial Park
San Juan, PR 00920

Dear Ms. Lopez Sanchez:

The Universal Service Administrative Company (USAC) Audit and Assurance Division (AAD) audited the compliance of Puerto Rico Telephone Company, Inc. d/b/a Verizon Wireless Puerto Rico (Beneficiary), study area code 639006 disbursements for **Stage 1 of the Bringing Puerto Rico Together Fund or "Uniendo a Puerto Rico Fund" ("UPR")**, using the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in Federal Communications Commission (FCC) Order and Notice of Proposed Rulemaking 18-57, FCC Public Notice DA 18-825, FCC 17-129, FCC 16-173, 47 CFR § 54.707, as well as other program requirements (collectively, FCC Rules), as applicable. Compliance with FCC Rules is the responsibility of the Beneficiary's Management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with FCC Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting how the Beneficiary used support received, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

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

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

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

Sincerely,

Jeanette Santana-Gonzalez
USAC Senior Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Vic Gaither, USAC Vice President, High Cost Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

PURPOSE, SCOPE AND PROCEDURES

PURPOSE

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

SCOPE

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

High Cost Support	Data Period	Disbursement Period	Disbursements Audited
Stage 1 of the Bringing Puerto Rico Together Fund or "Uniendo a Puerto Rico Fund" ("UPR")	Sept. 10, 2017-June 30, 2019	July 2018	$5,708,588
		Total	**$5,708,588**

BACKGROUND

The Beneficiary is an incumbent local exchange carrier ("ILEC") providing wireline local and long-distance telephone services in Puerto Rico and it is a facility-based operator of wireless cellular services. The Beneficiary's internet access service is provided by its affiliate, *Coqui.net Corporation ("Coqui")*, both entities of which are wholly owned subsidiaries of *Telecommunicaciones de Puerto Rico, Inc. ("TELPRI")*. In November 1997, the Telecommunications Regulatory Board of Puerto Rico ("TRB"), *n/k/a* the Telecommunications Bureau of Puerto Rico ("Bureau"), certified the Beneficiary as an eligible telecommunications carrier ("ETC") qualified to receive Universal Service Fund ("USF") program settlements.

PROCEDURES

AAD performed the following procedures:

A. General Procedures and Beneficiary Eligibility

AAD obtained a copy of the relevant ETC designation order from the local state commission and examined the document to determine when the Beneficiary was designated as an ETC in the study area to qualify for receiving High Cost Program support. To determine the Beneficiary's compliance with FCC and High Cost program rules for receiving funds under the UPR program, AAD obtained an understanding of the Beneficiary's processes and examined the hurricane-related costs and efforts to restore its network operations to levels existing pre-hurricane and any efforts to "harden" or strengthen its networks to withstand future hurricanes.

B. Expenditures Eligibility

AAD examined the general ledger details to determine whether the ETC used Stage 1 support only for expenditures incurred during the program time period (from the date that the affected areas were declared a disaster by the Federal Emergency Management Agency following Hurricanes Irma and Maria through June 30, 2019). In addition, AAD selected expense transactions and examined invoices to support the existence, accuracy, and timing of the incurred expenses.

C. Service Restoration

AAD obtained and examined documentation demonstrating the upstream and downstream speeds, latency, coverage area, and any other service qualities pre-hurricane and post-hurricane. AAD requested and reviewed information regarding whether the Beneficiary offered Backhaul support to all interested parties on non-discriminatory terms for a period of one year following the first receipt of funds.

D. Other Sources of Funding/Reimbursement

AAD confirmed the support that the Beneficiary received as a participant of the **UPR fund** through the USAC Open Data Tool. We examined the Beneficiary's financial statements and other documentation and determined that the Beneficiary used the award as reimbursement to itself.

This concludes the report.

Attachment E

HC2021LR004

Available For Public Use

Wamego Telephone Company
Audit Reference ID: HC2021LR004
(SAC No.: 411845)

Performance audit for the Universal Service High Cost Program - Disbursements made during the twelve-month period ended December 31, 2019

Prepared for: Universal Service Administrative Company

As of Date: 6/22/2023

KPMG LLP
1021 E Cary St #2000
Richmond, VA 23219

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KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

EXECUTIVE SUMMARY

June 22, 2023

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 Wamego Telephone Company Study Area Code ("SAC") No. 411845 ("Wamego" or "Beneficiary") for disbursements, of $7,462,911 made from the Universal Service High Cost Program during the twelve-month period ended December 31, 2019. Our work was performed during the period from September 2, 2021 to June 22, 2023, and our results are as of June 22, 2023.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for 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.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants ("AICPA"). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

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 High Cost Program (collectively, the " FCC Rules") relative to disbursements, of $7,462,911, made from the High Cost Program during the twelve-month period ended December 31, 2019. Compliance with the FCC Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the FCC Rules as outlined in the Scope and Procedures sections of this report.

As our report further describes, KPMG identified three 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 High Cost program for the twelve-month period ended December 31, 2019 were $74,198 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.

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

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

List of Acronyms

Acronym	Definition
ARC	Access Recovery Charge
BLS	Broadband Loop Support
C.F.R.	Code of Federal Regulations
C&WF	Cable and Wire Facilities
CAF	Connect America Fund
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
COE	Central Office Equipment
CPR	Continuing Property Record
FCC	Federal Communications Commission
Form 509	CAF BLS Annual Common Line Actual Cost Data Collection Form
G/L	General Ledger
HCL	High Cost Loop
HCL Form	National Exchange Carrier Association Universal Service Fund Data Collection Form
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
SVS	Safety Valve Support
TPIS	Telecommunications Plant In Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund
Wamego	Wamego Telephone Company

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Impact Overpayment (Underpayment)[1]			
	HCL	CAF BLS	CAF ICC	Total
HC2021LR004-F01: 47 C.F.R. § 32.2000(g)(2)(iii) - Inaccurate Depreciation Calculation – The Beneficiary used beginning monthly balances instead of average monthly balances to compute depreciation expense as prescribed by FCC Rules.	($1,038)	($1,283)	$0	($2,321)
HC2021LR004-F02: 47 C.F.R. § 54.1305(i) - Inaccurate Loop Counts – The Beneficiary understated Total Loops and Category 1.3 Loops by 59 loops and 9 loops, respectively, on 2018-1 HCL form compared to the source documentation.	($73,204)	$0	$0	($73,204)
HC2021LR004-F03: 47 C.F.R. §54.7(a),(b); FCC 18-29; FCC 15-133 - Support Not Used for Intended Purposes - The Beneficiary incorrectly included non-regulated expenses related to food and employee gifts in Account 6720 (General and Administrative Expenses).	$1,013	$314	$0	$1,327
Total Net Monetary Effect	($73,229)	($969)	$0	($74,198)

[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 for SAC 411845, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	HCL (A)	BLS (B)	CAF ICC (C)	USAC Recovery Action (A) + (B) + (C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	($1,038)	($1,283)	$0	($2,321)	N/A
Finding #2	($73,204)	$0	$0	($73,204)	N/A
Finding #3	$1,013	$314	$0	$1,327	N/A
Mechanism Total	($73,229)	($969)	$0	($74,198)	N/A

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

BACKGROUND, 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. USAC administers the USF through four support mechanisms: High Cost, Lifeline, Rural Health Care, and Schools and Libraries. With these four support mechanisms, the FCC strives to 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 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 High Cost Program provides support for telecommunications companies (Beneficiaries) that offer services to consumers in less-populated areas. Several legacy High Cost Program 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 sub-component:
   a. 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 obtain eligible recovery that is not recovered by the ARC to the end user.
3. CAF BLS: CAF BLS provides support for voice and broadband service, including stand-alone broadband. CAF BLS provides support to the extent that their consumer broadband revenue requirements exceed their imputed consumer broadband revenues. CAF BLS replaced ICLS effective July 1, 2016.

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 High Cost Program relative to disbursements, of $7,462,911 , made from the High Cost Program during the twelve-month period ended December 31, 2019.

Beneficiary Overview

Wamego Telephone Company (SAC No. 411845), the subject of this performance audit, is a rural ILEC located in Wamego, Kansas that serves Northeast Kansas, specifically Wamego, Manhattan, and St. Mary and the surrounding areas. Wamego provides local and toll telephone services, as well as data and video services.

The Beneficiary is privately owned by approximately 250 shareholders with no shareholder owning more than 5% of the outstanding stock. Wamego Telephone Company, Inc. functions as a holding entity for its three wholly owned subsidiaries: Wamego Telecommunications Company, Inc., WTC Communications, Inc., and WTC Technologies, Inc. The Beneficiary is a direct cost filer.

In the table below, we show the High Cost support disbursed by USAC to the Beneficiary during the twelve-month period ended December 31, 2019 by High Cost fund type:

High Cost Support	Disbursement Amount
CAF BLS	$4,770,186
CAF ICC	$915,258
HCL	$1,777,467
Total	$7,462,911

Source: USAC

In addition to the above, the Beneficiary also received $83,138 in ICLS funds which represent a true-up of prior year funding, and as such are excluded from 2019 audited disbursements.

The Beneficiary received high Cost support during the twelve-month period ended December 31, 2019, based on the following annual financial and operational data submitted by the Beneficiary and USAC:

- 2018-1 HCL Form
- 2018 FCC Form 509, based on calendar year 2017 data, and
- 2018 CAF ICC Form, based on program year 2017 data

In the above referenced forms, the High Cost Program beneficiaries provide 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 must submit certain annual investment data, including the categorization of COE and C&WF on the High Cost Program 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 High Cost Program relative to disbursements, of $7,462,911, made from the High Cost Program during the twelve-month period ended December 31, 2019.

SCOPE

The scope of this performance audit included, but was not limited to, review of High Cost Program forms or other correspondence and supporting documentation provided by the Beneficiary, assessment of the Beneficiary's methodology used to prepare or support the High Cost Program 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 High Cost Program forms or other correspondence filed by the Beneficiary that relate to disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019, as well as performing other procedures we considered necessary to form a conclusion relative to

disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019.[2]

KPMG identified the following areas of focus for this performance audit:[3]

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

PROCEDURES

1. Materiality Analysis

For applicable High Cost Program forms, we obtained the forms submitted for the period ended December 31, 2017 input the information into KPMG's High Cost Program 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.

2. Reconciliation

KPMG obtained the audited 2017 financial statements and reconciled to the G/L, from the G/L we reconciled to the Part 64 cost allocation inputs and then to the applicable High Cost Program forms.

3. Assets

KPMG utilized a monetary unit sampling (MUS) [4] methodology considering tolerable rate of error and confidence level to select samples from material accounts identified in the relevant High Cost Program forms, which resulted in 23 asset samples. We made asset selections from CPR details, and material accounts included COE, C&WF and certain general support asset accounts. We assessed whether asset balances were properly supported by underlying documentation such as work orders, third-party vendor invoices, and time and payroll

[2] Although the Beneficiary received CAF BLS funds, the deployment obligation for carriers receiving CAF BLS is 2024. Therefore, the audit scope does not include any procedures related to modernized funds.
[3] If exceptions (instances of material noncompliance with the FCC Rules) 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.
[4] Monetary unit sampling (MUS) is a random-based sampling approach based on monetary fixed interval across the dollar values in the population.

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.

4. **Expenses**

   KPMG utilized a monetary unit sampling methodology considering tolerable rate of error and confidence level to select samples including payroll from material operating expense accounts identified in the relevant High Cost Program form, which resulted in 29 expense samples. We agreed expense amounts the supporting documentation such as invoices and were reviewed for proper Part 32 account coding and categorization by expense type and nature of the costs incurred (regulated versus non-regulated activities). We also obtained and examined monthly depreciation expense and accumulated depreciation schedules to assess whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation.

5. **High Cost Program filings**

   For the relevant High Cost Program forms (HCL, CAF BLS, and CAF ICC) completeness of reported accounts were assessed via reconciliations to the audited financial statements via the 'Reconciliation' process described above. Irreconcilable items were discussed with the Beneficiary and support obtained to resolve differences.

6. **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.

7. **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.

8. **Overheads**

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

9. **Taxes**

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

10. **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.

11. Affiliate Transactions

KPMG performed procedures to assess the reasonableness of affiliate transactions noting proper calculation and recording of leases, that occurred during 2017. These procedures included determining the population of affiliate transactions by reviewing the audited financial statements, trial balance, and intercompany accounts, and through inquiry, and utilizing attribute sampling to select a sample of the different types of affiliate transactions for testing. For the 11 samples 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.

12. 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 High Cost Program 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.

13. Revenue Requirement

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

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary responses regarding the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to Parts 32, 36, 51, 54, 64 and 69 of the FCC's Rules, applicable to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019. USAC Management is responsible for any decisions and actions resulting from the findings or recommendations noted.

FINDINGS, RECOMMENDATIONS AND BENEFICIARY RESPONSES

Through its audit, KPMG identified three findings and details the findings, including the condition, cause, effect, recommendation and Beneficiary Response are below:

HC2021LR004-F01: 47 C.F.R. § 32.2000(g)(2)(iii) – Inaccurate Depreciation Calculation

CONDITION

KPMG obtained and examined the Beneficiary's G/L and depreciation schedules to determine whether the Beneficiary reported its cost study balances accurately for High Cost program purposes. The Beneficiary used beginning monthly balances instead of average monthly balances to compute its depreciation expense as prescribed by FCC Rules for the period of January 1, 2017 through December 31, 2017.[5]

The differences noted in the Accumulated Depreciation and Depreciation Expense balances for the twelve-month period ended December 31, 2017, impacting the 2018-1 HCL Form and the Form 509 are as follows:

Account Description	For the 12 months ended December 31, 2017 $ Variance
Account 3100 (2100): Accumulated Depreciation – Land and General Support Assets	$4,589
Account 3100 (2210): Accumulated Depreciation – Central Office Switching Equipment	($2,657)
Account 3100 (2230): Accumulated Depreciation – Central Office Transmission Equipment	$5,414
Account 3100 (2410): Accumulated Depreciation – C&WF	$692

CAUSE

The Beneficiary did not have adequate processes in place to validate appropriate depreciation methodology occurred, including adjusting entries, to have the total depreciation expense and accumulated depreciation align with FCC Rules.

EFFECT

KPMG calculated the monetary impact of this finding by adding the variances noted in the "Condition" above to the following accounts: adding $4,589 to Accumulated Depreciation – Land and General Support Assets and Depreciation Expense – Land and Support Assets; adding $5,414

[5] *See* 47 C.F.R. § 32.2000(g)(2)(iii) ("The average monthly balance shall be computed using the balance as of the first and last days of the current month.").

to Accumulated Depreciation – Central Office Transmission Equipment and Depreciation Expense – Central Office Transmission Equipment; adding $692 to Accumulated Depreciation – C&WF and Depreciation Expense – C&WF; and subtracting the variance noted in the "Condition" above of $2,657 from Accumulated Depreciation – Central Office Switching Equipment and Depreciation Expense – Central Office Switching Equipment in the Beneficiary's High Cost program filings. This resulted in an under-payment of $2,321 which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019 below:

Support Type	Monetary Effect & Recommended Recovery
HCL	($1,038)
CAF BLS	($1,283)
CAF ICC	N/A
Total	**($2,321)**

RECOMMENDATION

KPMG recommends 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

Effective January 1, 2022, the Beneficiary has updated its calculation of depreciation expense to comply with FCC Rules and Orders.

HC2021LR004-F02: 47 C.F.R. § 54.1305(i)– Inaccurate Loop Count Reporting

CONDITION

KPMG obtained and examined the Beneficiary's 2018-1 HCL form and source documentation to evaluate whether the Beneficiary reported accurate information for High Cost program purposes. FCC rules require submission of the number of working loops for each study area to NECA.[6] The Total Loops submitted on 2018-1 HCL Form for December 31, 2017[7] did not reconcile to the source documentation as noted below:

	Total Loops	Total Category 1.3 Loops
Source Documentation	3,308	3,308
2018-1 HCL Form	3,367	3,317
Difference	(59)	(9)

CAUSE

The Beneficiary's preparation, review and approval processes governing the calculation and reconciliation of line count data did not detect the over-reported lines and the submission of erroneous data.

EFFECT

[6] *See* 47 C.F.R. § 54.1305(i).
[7] *See* 47 C. F. R. § 54.1306(a).

KPMG calculated the monetary impact of this finding by subtracting the variances noted in the "Condition" above of 59 loops from the Beneficiary's Total Loop count and subtracting 9 loops from the Beneficiary's Category 1.3 loops in the Beneficiary's High Cost program filings. This resulted in an under-payment of $73,204, which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019, below:

Support Type	**Monetary Effect & Recommended Recovery**
HCL	($73,204)
CAF BLS	$0
CAF ICC	N/A
Total	**($73,204)**

RECOMMENDATION

KPMG recommends that the Beneficiary implement processes to review and report the appropriate line/loop counts, including the performance of a reconciliation of all line/loop count data to underlying support documentation. Moreover, the Beneficiary should enhance its preparation, review and approval processes over High Cost program filing 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 has worked with its employees and consultants to develop procedures to ensure that line counts are being reported accurately and according to FCC Rules and Orders, including reconciliation of line count information to underlying supporting documentation. Line counts reported since this finding was communicated have been updated to reflect accurate counts.

HC2021LR004-F03: 47 C.F.R. §54.7(a),(b); FCC 15-133; FCC 18-29 - Support Not Used for Intended Purposes

CONDITION

For one of 29 expense items sampled, the Beneficiary inappropriately categorized expenses totaling $2,347 related to a food and employee gifts to regulated activities in Account 6720 (General and Administrative Expenses) instead of coding these expenses to a non-regulated account.[8] These expenses should have been excluded from the High Cost Program Forms as they were not necessary to the provision of High Cost program supported services.[9]

CAUSE

The Beneficiary's preparation, review and approval processes governing disallowed expenses, as per FCC Rules, did not detect the above expenses included in credit card charges that were reported on the High Cost Program Forms during the audit period.

[8] *See Connect America Fund et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, 33 FCC Rcd 2990, 2994-95, para. 14 (2018).
[9] *See* 47 C.F.R. §54.7(a)-(b).

EFFECT

KPMG calculated the monetary impact of this finding by subtracting the amount noted in the "Condition" above, $2,347, from the General and Administrative Expenses in the Beneficiary's High Cost program filings. This resulted in an over-payment of $1,327, which is summarized relative to disbursements made from the High Cost Program for the twelve-month period ended December 31, 2019, below:

Support Type	Monetary Effect & Recommended Recovery
HCL	$1,013
CAF BLS	$314
CAF ICC	N/A
Total	**$1,327**

RECOMMENDATION

KPMG recommends the USAC Program recovers the $1,327 as noted in the Effect Section above.

KPMG recommends the Beneficiary enhance its controls and procedures related to preparation, review and approvals related to reporting of disallowed 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 has enhanced its procedures and controls to review its data more thoroughly to identify and remove disallowed expenses.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(iii) (2017)	"Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month."
#1	47 C.F.R. § 32.3100 (2017)	"Accumulated depreciation. (a) This account shall include the accumulated depreciation associated with the investment contained in Account 2001, Telecommunications Plant in Service. (b) This account shall be credited with depreciation amounts concurrently charged to Account 6561, Depreciation expense - telecommunications plant in service. (Note also Account 3300, Accumulated depreciation - nonoperating.) (c) At the time of retirement of depreciable operating telecommunications plant, this account shall be charged with the original cost of the property retired plus the cost of removal and credited with the salvage value and any insurance proceeds recovered. (d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4) of this subpart. This account shall be credited with amounts charged to Account 6561 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses."
#1	47 C.F.R. § 32.6560 (2017)	Depreciation and amortization expenses. "Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565."
#2	47 C.F.R. § 54.1305(i) (2017)	"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."
#2	47 C.F.R. § 54.1306(a) (2017)	"Any incumbent local exchange carrier subject to § 54.1301(a) may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to § 54.1305 one or more times annually on a rolling year basis according to the schedule."
#3	47 C.F.R. § 54.7(a),(b) (2017)	A carrier that receives federal universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.
#3	*Connect America Fund et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on	"The High-Cost Oct. 19, 2015 Public Notice contained a non-exhaustive list of expenditures that cannot be recovered through the high-cost program because they are "not necessary to the provision of supported services." That list of ineligible expenses included: personal travel; entertainment; alcohol; food (including but not limited to meals to celebrate personal events); political contributions; charitable donations; scholarships; penalties or fines for statutory or regulatory

Finding	Criteria	Description
	Reconsideration, and Notice of Proposed Rulemaking, 33 FCC Rcd 2990, 2994-95, para. 14 (2018).	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. The Commission explained that, while ETCs are eligible to receive support to recover a portion of their costs relating to corporate operations, those expenses must fall within the scope of the requirement of section 254(e) and the Commission's rules that support be used for the provision, maintenance, and upgrading of facilities and services for which the support is intended."
#3	*All Universal Service High Cost Recipients are Reminded that Support Must be Used for its Intended Purpose*, WC Docket Nos. 10-90, 14-58, Public Notice, 30 FCC Rcd 11821 (2015)	"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."

CONCLUSION

As discussed in detail above, in our evaluation of the Beneficiary's compliance with the applicable requirements of the FCC Rules relevant to the disbursements made from the High Cost Program during the twelve-month period ended December 31, 2019 identified Depreciation Expense, Loop Counts, and Expense findings.

KPMG estimates the monetary impact of these findings is as follows:

Fund Type	Monetary Impact Overpayment (Underpayment)
HCL	($73,229)
CAF BLS	($969)
CAF ICC	$0
Total Impact	($74,198)

KPMG recommends that the Beneficiary enhance the preparation, review, and approval processes governing the calculation of depreciation, loops counts, and expenses to ensure the appropriate depreciation method and expense amounts, as well as appropriate loop counts, are utilized to be in compliance with FCC Rules.

** This concludes the audit report.**

<u>Summary of High Cost Support Mechanism Beneficiary Audit Reports Released: September 2023.</u>

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Cheyenne River Sioux Tribe Telephone Authority **Attachment F**	1	• Not significant findings.	$4,367,326	$21,957	$21,957	N
Glenwood Network Services, Inc. **Attachment G**	1	• No significant findings.	$1,280,044	$3,245	$3,245	Y
Guadalupe Valley Telephone Cooperative, Inc. **Attachment H**	1	• <u>Miscategorized Cable and Wire (CWF) facilities.</u> The Beneficiary had incorrect Category 1 amounts in the CWF categorization.	$15,009,397	($239,623)	$0	N
North Central Telephone Cooperative, Inc. **Attachment I**	1	• <u>Incorrect Accounting of Affiliate Leased Vehicles</u>. The Beneficiary did not properly account for vehicle lease transactions with an affiliate.	$11,082,191	$243,996	$243,996	Y
Minburn Telecom **Attachment J**	2	• No significant findings.	$1,156,013	$5,076	$5,076	N

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Total	**6**		**$32,894,971**	**$34,651**	**$274,274**	

Available For Public Use

Attachment F

HC2022LR004

Cheyenne River Sioux Tribe Telephone Authority

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

USAC Audit No. HC2022LR004

Prepared For:

Universal Service Administrative Company

April 21, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

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CliftonLarsonAllen LLP
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EXECUTIVE SUMMARY

April 21, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Cheyenne River Sioux Tribe Telephone Authority ("The Beneficiary"), study area code **391647** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from April 14, 2022, to April 21, 2023.

We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
April 21, 2023

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified one finding, which is summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation				
The Beneficiary reported incorrect depreciation expense amounts in its reporting for High Cost program purposes.	$14,924	$7,033	-	$21,957

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 391647, for the High Cost Program support in the amount noted in the chart below.

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

	CAF BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$14,924	$7,033	$ -	$21,957	N/A
Total	**$14,924**	**$7,033**	**-**	**$21,957**	

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Cheyenne River Sioux Tribe Telephone Authority (the "Beneficiary") was created by the Cheyenne River Sioux Tribe in 1974. The Beneficiary is a rate-of-return carrier operating on the Cheyenne River Sioux Tribe Indian Reservation. The Beneficiary covers 4,600 square miles, including 20 communities within South Dakota and provides services to over 2,000 subscribers. The Beneficiary provides local exchange, network access, long distance, internet access, digital subscriber line, IPTV through Skitter TV, and other telecommunications services in central South Dakota. The Beneficiary's public utility activities are nonregulated. In 1995, the Beneficiary organized the wholly-owned subsidiary, Owl River Telephone, Inc. ("Owl River") under the laws of the Cheyenne River Sioux Tribe. Owl River was created to acquire and operate three exchanges in South Dakota held for sale by U.S. West Communications, Inc. The acquisition was ultimately not approved by the Public Utilities Commission of South Dakota ("SDPUC"). As of September 30, 2018, and 2017, there was no activity in Owl River. In 2018, the Beneficiary began providing an IPTV base service in connection with Skitter TV to its customers. C.R.S.T. Sales and Service is a division of the Beneficiary that sells office and janitorial supplies to businesses in central South Dakota.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The 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 service areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return ILEC Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

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

SCOPE

The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$1,840,458
High Cost Loop (HCL)	2018	2020	$2,057,500
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$469,368
		Total	**$4,367,326**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets

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

D. Operating Expenses

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

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High-Cost program purposes. 47 C.F.R. § 32.2000(g)(2)(iii) requires that depreciation is calculated using the average of each month's beginning and ending balances for each asset account.[1] In response to CLA's background questionnaire, the Beneficiary confirmed its depreciation expense amounts were calculated in accordance with the regulated methodology, which is the depreciation rate times the average balance of assets at the beginning and ending of the month.[2] However, CLA was not able to verify the methodology because the depreciation expense calculations including the formulas were not provided by the Beneficiary. CLA recalculated depreciation expense, based on the general ledger balances for the Land and Support Assets (Account 2110), the COE Switching assets (Account 2210), and COE Transmission (Account 2230), material variances were identified and thus a twelve-month recalculation of the account was done. The differences between the recalculated twelve months of depreciation expense using the average of the beginning and ending balance of each month and the amount submitted for High-Cost program support are presented below:

Account	Part 64 Reported Amount (A)	(Understated) / Overstated Amount (B)	Part 64 Revised Amount (A – B)
Accumulated Depreciation (Account ACCT 3100_2100 – Land and Support Assets)	4,289,662.28	(14,768.78)	4,304,431.06
Depreciation Expense (Account ACCT 6560_2110 – Land and Support Assets)	368,439.00	(14,768.78)	383,207.78
Accumulated Depreciation (Account DL260_3100_2210 – COE Switching)	802,374.17	6,518.18	795,855.99
Depreciation Expense (Account DL510_6560_2210 – COE Switching)	122,669.00	6,518.18	116,150.82
Accumulated Depreciation (Account DL270_3100_2230 – COE Transmission)	4,006,493.08	20,658.23	3,985,834.85
Depreciation Expense (Account DL520_6560_2230 – COE Transmission)	563,216.00	20,658.23	542,557.77

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate depreciation expense and accumulated depreciation.

[1] See 47 C.F.R. § 32.2000(g)(2) (2018).

[2] Id.

Since the Beneficiary has a fiscal year of 9/30/2018 not a calendar year end of 12/31/2018, testing of depreciation was done at fiscal year-end during the financial statements audit and not as of the calendar year; thus, inaccurate depreciation calculation was not detected.

EFFECT

CLA calculated the monetary effects of this finding by adding the amount of $14,768.78 to the Land and Support Assets Accumulated Depreciation and Depreciation Expense accounts in the Beneficiaries High Cost program filings. In addition, we also subtracted the amount of $6,518.18 and $20,658.23 from the Depreciation Expense and Accumulated Depreciation accounts of the COE Switching and COE Transmission; respectively, in Beneficiaries High Cost program filings.

The monetary impact of this finding relative to disbursements made from High-Cost Program for the twelve-month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$14,924
HCL	$7,033
CAF ICC	0
Total	**$21,957**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implements an adequate system to properly calculate depreciation expense and accumulated depreciation reported for High-Cost Program purposes.

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

BENEFICIARY RESPONSE

Cheyenne River Sioux Tribe Telephone Authority agrees with the finding. As noted above, the fiscal year end is 9/30 not a calendar year end. Testing of depreciation is performed during the annual audit for the fiscal year not the calendar year. To prevent a similar error in the future, the cost consultant will perform testing of depreciation for the calendar year as an additional step when preparing the annual cost study and make any appropriate adjustments at that time.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2) (2018)	"(g) Depreciation accounting (2) Depreciation charges. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section."

Attachment G

HC2022LR013

Glenwood Network Services, Inc.

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

USAC Audit No. HC2022LR013

Prepared For:

Universal Service Administrative Company

May 22, 2023

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CliftonLarsonAllen LLP
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EXECUTIVE SUMMARY

May 22, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Glenwood Network Services, Inc. (Beneficiary or GNS), study area code **371567** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 1, 2022, to May 22, 2023.

We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP
Greenbelt, MD
May 22, 2023

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified one finding which is summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 64.901 – Improper allocation of joint-service bills. The Beneficiary used inaccurate allocator factor to split joint-service bills with affiliate.	$1,316	$1,929	-	$3,245

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 371567, for the High Cost Program support in the amount noted in the chart below.

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

	CAF BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$1,316	$1,929	-	$3,245	N/A
Total	**$1,316**	**$1,929**	**-**	**$3,245**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides services to over 400 customers in the State of Nebraska. The Beneficiary is a fully owned subsidiary of Glenwood Telephone Membership Corporation (GTMC), which also has 100% ownership of Glenwood Telecommunications, Inc. (GT). Freedom Leasing LLC is a subsidiary of GT. The Beneficiary and its affiliated entities provide non-regulated services including Internet and telecommunications services.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The 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 service areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return Incumbent Local Exchange Carrier (ILEC) Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

OBJECTIVE

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

SCOPE

The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$395,631
High Cost Loop (HCL)	2018-2019	2020	$689,455
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$194,958
		Total	**$1,280,044**

PROCEDURES

We performed the following procedures:

A. High Cost Program Support Amount

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

B. High Cost Program Process

We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets

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

D. Operating Expenses

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

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

F. **Affiliate Transactions**
We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. **Cost Allocation**
We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 64.901(a)&(b) – Improper Allocation of Joint-Service Bills.

CONDITION

CLA obtained and examined the Beneficiary's general ledger and supporting documentation for transactions shared with affiliates for the twelve month period ending December 31, 2018, and March 31, 2019, to determine whether bills for joint services were properly allocated between the Beneficiary and its affiliates. CLA determined that the Beneficiary did not accurately calculate and record its share of joint-service bills with affiliates.

Utilizing data analytical tools, CLA selected for analysis a non-statistical sample of six general ledger transactions totaling $1,181 for the twelve months ended December 31, 2018, and 45 general ledger transactions totaling $42,137 for the twelve months ended March 31, 2019. CLA identified two transactions totaling $7,520 incurred for training and conference purposes but which were not properly split between the Beneficiary and GTMC. Additionally, CLA identified a phone bill for service provided by GT, an affiliate, to the Beneficiary and GMTC, the parent company, which was also not properly split between the two parties. According to FCC rules, when "neither direct or indirect measures of cost allocation can be found, the cost category shall be allocated...using the ration of all expenses." [1] In each of these transactions, the Beneficiary split the bill amounts evenly between themselves and the affiliate, instead of using a cost-causative factor.

The Beneficiary agreed that a cost-causative factor like the relative operating expenses of the entities constituted a more representative allocation factor to split those bills[2]. CLA used the ratio of each entity's operating expenses extracted from the 2017 audited consolidating schedules to allocate the amounts in the bills. In the table below, CLA summarizes the Beneficiary's overstated account balances that resulted from the use of an improper allocation method in amounts reported for High Cost program filings:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balance (B)	Variance Over/(Under) Reported (A-B)
Period of January 1, 2018 - December 31, 2018			
Central Office Transmission (Acct 6230)	$113,709	$113,239	$470
General and Administrative (Acct 6720)	$456,547	$452,047	$4,500
Period of April 1, 2018 – March 30, 2019			
Central Office Transmission (Acct 6230)	$130,233	$129,763	$470
General and Administrative (Acct 6720)	$455,964	$451,394	$4,570

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to identify and accurately allocate expenses among entities for amounts reported for High Cost program purposes. The Beneficiary informed CLA that expenses were allocated between two regulated entities, each of which absorbed half of the expense.

[1] See 47 CFR § 64.901 (b)(3)(ii).

[2] Per email received from Ray Schindler, Cost Consultant, on April 7, 2023.

EFFECT

CLA calculated the monetary effect of this finding for the twelve month periods ending December 31, 2018, and March 31, 2019, by subtracting the variance amounts from the Central Office Transmission Expense and General Administrative Expense accounts from the Beneficiary's High Cost program filings. The monetary impact of this finding relative to disbursements made from High Cost Program for the twelve months period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$1,316
HCL	$1,929
CAF ICC	-
Total	**$3,245**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implement policies and procedures to ensure that it has an adequate system in place to ensure that amounts reported for each regulated entity in the High Cost program filings are accurately calculated.

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

BENEFICIARY RESPONSE

These entries are an allocation of expenses between two regulated entities. Each company is receiving a benefit from these expenses, so an equal sharing of the expense was made. Furthermore, GNS has been over the per line cap. A reduction in calculated USF would not result in a lower amount of USF paid to the company.

CLA RESPONSE

CLA calculated the per line cap and determined that GNS has been under the cap. The recommended recovery amount remained unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 64.901(a)&(b)(1)-(3)	Allocation of costs. (a) Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. (b) In assigning or allocating costs to regulated and nonregulated activities, carriers shall follow the principles described herein. (1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service. (2) Costs shall be directly assigned to either regulated or nonregulated activities whenever possible. (3) Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.

Attachment H

HC2022LR014

Guadalupe Valley Telephone Cooperative, Inc.

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

USAC Audit No. HC2022LR014

Prepared For:

Universal Service Administrative Company

March 15, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

March 15, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a performance audit on the compliance of Guadalupe Valley Telephone Cooperative, Inc. (Beneficiary), study area code **442083** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 31, 2022, to March 15, 2023.

We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
March 15, 2023

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified three findings, which are summarized below.

Audit Results	Monetary Effect				Recommended Recovery
	CAF BLS	HCL	CAF ICC	Total	
Finding #1: 47 C.F.R § 36.152(a)(1) and 47 C.F.R. § 36.153 – Miscategorized Cable and Wire Facilities The Beneficiary has incorrect category 1 amounts in CWF categorization.	($111,697)	($118,016)	-	**($229,713)**	**$0**
Finding #2: 47 C.F.R § 54.320(b) – Inadequate Documentation to Support Affiliate Transactions Affiliate transactions insufficiently supported to confirm they were valued appropriately.	$32,944	$26,104	-	**$59,048**	**$59,048**
Finding #3: 47 C.F.R. § 51.917(d) – Inaccurate Revenue Reporting for Intrastate Revenues Inaccurate revenue reporting for intrastate revenues.	-	-	($68,958)	**($68,958)**	**$0**
Total	**($78,753)**	**($91,912)**	**($68,958)**	**($239,623)**	**$59,048**

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results for SAC 442083, for the High Cost Program support. The Beneficiary must implement policies and procedures necessary to comply with FCC Rules. USAC recommends that the Beneficiary implement internal controls to ensure correct application of its procedures to ensure compliance with FCC Rules and Orders.

	CAF BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	($111,697)	($118,016)	-	($229,713)	N/A
Finding #2	$32,944	$26,104	-	$59,048	N/A
Finding #3	-	-	($68,958)	($68,958)	N/A
Total	($78,753)	($91,912)	($68,958)	($239,623)	N/A

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

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that provides service to over 30,000 subscribers in southern Texas. The Beneficiary's wholly owned subsidiaries include Guadalupe Valley Communications, LP (GVCS) and Guadalupe Valley Enterprises, Inc. (GVE). The Beneficiary and its affiliated entities provide non-regulated services including cable TV, security, and transport services.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The 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.
- Rate-of-return Incumbent Local Exchange Carrier (ILEC) Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do

not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

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

SCOPE
The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$12,222,918
High Cost Loop (HCL)	2018-2019	2020	$1,030,237
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$1,756,242
		Total	**$15,009,397**

PROCEDURES
We performed the following procedures:

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

B. High Cost Program Process
We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

C. Fixed Assets

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

D. Operating Expenses

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

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R § 36.152(a)(1) and 47 C.F.R. § 36.153 – Miscategorized Cable and Wire Facilities

CONDITION

CLA obtained and examined the Beneficiary's general ledger, continuing property records and cost study allocation for Cable and Wire Facilities (CWF) equipment to determine whether the Beneficiary's cost study amounts were accurately reported for High Cost Program purposes for the year ended December 31, 2018. CLA verified the Beneficiary utilized the residual method to categorize its Category 1 CWF assets. Categories of exchange line CWF are defined in 47 C.F.R. 47 § 36.152(a)(1) and 47 C.F.R. 47 § 36.153.[1] The residual method consists of identifying all Category 2, 3, and 4 interexchange CWF assets and deducting these assets from the total CWF balance to determine what should be reported as the Category 1 CWF balance.[2] The Beneficiary must only apportion to Category 1 CWF the costs for facilities that are used to connect an exchange's central offices to subscriber premises in that same exchange.[3]

Upon examination of the Beneficiary's interexchange route allocation documentation to determine whether interexchange route costs were accurately calculated, CLA noted that the Beneficiary did not accurately calculate the non-regulated services portion of the allocation, resulting in an over statement of its non-regulated services. The Beneficiary used the loop and access lines to determine the non-regulated portion but failed to include DSL customer loop count as part of the total loop count. This resulted in an inaccurate allocation factor for non-regulated services. The table below summarizes the interexchange route categorization variances between the Beneficiary's original categorization and CLA's recalculated categorization:

CWF Category	CWF Category Descriptions Original as Reported	Original as Reported (A)	CLA Recalculation (B)	Under-reported Amount (B-A)
1	Total Exchange Line	$160,587,974	$162,465,116	$1,877,142
2.1	Ex Trk - EAS	$24,483	$24,769	$286
2.2	Ex Line WB - Data Only DSL	$44,727,738	$45,250,569	$522,831
2.3	Ex Line Ethernet	$1,770,442	$1,791,137	$20,695
2.4	WB Line	$2,015,103	$2,038,658	$23,555
3	IX C&WF	$2,280,709	$2,307,369	$26,660
4	Host/Remote	$419,713	$424,619	$4,906
	Grand Total	**$211,826,162**	**$214,302,237**	**$2,476,075**

1 See 47 C.F.R. § § 36.152(a)(1) and 36.153.

2 *Id.*

3 See 47 C.F.R. 47 § 36.154(a).

Because the Beneficiary did not categorize its CWF costs accurately, CLA concludes that for High Cost Program purposes, the Beneficiary inaccurately reported cost study balances for CWF categories as noted in the table above.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to report the correct amount for High Cost Program purposes. The Beneficiary informed CLA that the issue was due to an excel formula error that was causing the regulated balances to not be properly stated.

EFFECT

The monetary effect of this finding was calculated by adding $2,476,075 to the CWF categories reported in the Beneficiary's High Cost Program filing for the period ending December 31, 2018, as outlined in the above table. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($111,697)
HCL	($118,016)
CAF ICC	-
Total	**($229,713)**

RECOMMENDATION

No recovery is recommended for this finding as the finding is an underpayment of support. Additionally, CLA recommends the Beneficiary implement policies and procedures to ensure that accurate data inputs are utilized during its cable and wire facilities study.

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

BENEFICIARY RESPONSE

We agree with the CLA finding and have implemented additional review procedures to ensure this error is corrected. We transitioned to the NISC accounting system in 2020 and this will assist with this process.

Finding #2: 47 C.F.R § 54.320(b) – Inadequate Documentation to Support Affiliate Transactions

CONDITION

CLA obtained and examined documentation, including the general ledger for the year ended 2018 and the affiliate service agreements, to determine whether the Beneficiary properly recorded its affiliate transactions. Per FCC rules, carriers must retain records for 10 years from the date of disbursement.[4] For one affiliate agreement in which the Beneficiary leased a portion of the building from its wholly owned subsidiary Guadalupe Valley Communications, LP, the Beneficiary did not provide sufficient documentation to show that the amounts recorded for lease transactions with its affiliate were valued in accordance with FCC rules.

The Beneficiary leased building spaces from its affiliate during the year 2018. In determining the net book value used to calculate the monthly lease amounts, the affiliate applied a 10% rate to the labor hours for building maintenance, based on the amount of time employees are considered to work on the building project. However, no supporting documentation was provided to support the 10% rate. Additionally, the Beneficiary was unable to provide documentation to support the original cost of the building being leased. Therefore, CLA is unable to determine whether the amount recorded for rent expenses in the general ledger was accurate. The total amount of $123,920 was recorded in the general ledger for this transaction for the year ended 2018.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to properly estimate inputs into affiliate transactions. The Beneficiary informed CLA that affiliate transaction detail was not updated in a timely manner[5].

EFFECT

CLA calculated the monetary effect for this finding by removing $93,758 from general support expenses reported in the Beneficiary's High Cost Program filing for the period ending December 31, 2018.[6] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$32,944
HCL	$26,104
CAF ICC	-
Total	**$59,048**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implements procedures to ensure affiliate transaction details are regularly updated and all supporting documentation maintained.

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

4 *See* 47 C.F.R. § 54.320(b).
5 Beneficiary response to Summary of Exceptions, received March 29, 2023.
6 Total represents the amount of regulated expense associated with the $123,920 of unsupported expenses after applying the Beneficiary's 75.66% regulated factor.

BENEFICIARY RESPONSE

We agree with the CLA finding and have implemented additional review procedures to ensure affiliate transactions are properly documented in the intercompany agreement, processed properly, and updated on a regular basis.

Finding #3: 47 C.F.R. § 51.917(d) - Inaccurate Revenue Reporting for Intrastate Revenues.

CONDITION

FCC rules determine how to accurately report revenues for eligible recovery for rate-of-return carriers.[7] CLA obtained and examined documentation, including the Beneficiary's billing reports, general ledger, and NECA CAF ICC True-Up statements, to determine whether the Beneficiary accurately reported revenues earned for providing interstate and intrastate terminating switched access services. CLA determined that the Beneficiary did not report accurate intrastate access service revenues.

CLA compared the actual intrastate revenues reported by the Beneficiary for the periods between 2016 and 2019 to the amounts recorded in the general ledger for those periods and noted variances as shown below:

Revenue	Program Year July 2016 – June 2017	Program Year July 2017 – June 2018	Program Year July 2018 – June 2019
Intrastate Revenue Reported	-[8]	$501,656	$263,118
GL Intrastate Revenue	$174,102	$272,899	$179,857
Intrastate Revenue Difference	**($174,102)**	**$228,757**	**$83,261**

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, or monitoring data to report accurate intrastate revenues for High Cost program purposes. The Beneficiary explained that the inaccurate reporting was the result of human error caused by the Carrier Access Billing System, the previous billing system used by the Beneficiary, which required employees to generate numerous spreadsheets and manually transfer from one to another.[9]

EFFECT

CLA calculated the monetary effect of this finding by subtracting $53,655 and $83,261 from the Beneficiary's Intrastate Revenue reported for Program Years July 2017 – June 2018 and July 2018 – June 2019, respectively.[10] CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

[7] *See* 47 C.F.R. § 51.917(d).

[8] The Beneficiary omitted revenue for 2016-2017 and included it with 2017-2018 amounts.

[9] *Id.*

[10] As the Beneficiary included the understated intrastate revenue from Program Year July 2016 – June 2017 within its reported revenue for Program Year July 2017 – June 2018, the $53,655 overstatement of intrastate revenue removed from Program Year July 2017 – June 2018 represents the net total of ($174,102) and $228,757.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	-
HCL	-
CAF ICC	($68,958)[11]
Total	**($68,958)**

RECOMMENDATION

No recovery is recommended for this finding as the finding is an underpayment of support. The Beneficiary must ensure that it has an adequate system in place to report data for CAF ICC purposes. The Beneficiary must implement and perform a perform a thorough and timely review process to reconcile revenues before being reported for High Cost purposes.

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

BENEFICIARY RESPONSE

We agree with the CLA finding. We transitioned to the NISC Carrier Access and Billing System in 2020 and manual data entry into spreadsheets have been eliminated. A review process has been established to ensure revenues are reported properly.

[11] The monetary effect listed only represents disbursements during calendar year 2020. CLA notes at least $68,958 in improper disbursements were made during prior and subsequent periods.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R § 36.152(a)(1) (2018)	***Categories of Cable and Wire Facilities (C&WF).*** (a) C&WF are basically divided between exchange and interexchange. Exchange C&WF consists of the following categories: (1) Exchange Line C&WF *Excluding Wideband* - Category 1 - This category includes C&W facilities between local central offices and subscriber premises used for message telephone, private line, local channels, and for circuits between control terminals and radio stations providing very high frequency maritime service or urban or highway mobile service.
#1	47 C.F.R § 36.153 (2018)	***Assignment of Cable and Wire Facilities (C&WF) to categories.*** (a) Cable consists of: Aerial cable, underground cable, buried cable, submarine cable, deep sea cable and intrabuilding network cable. Where an entire cable or aerial wire is assignable to one category, its cost and quantity are, where practicable, directly assigned. (1) Cable. (i) There are two basic methods for assigning the cost of cable to the various categories. Both of them are on the basis of conductor cross section. The methods are as follows: (A) By section of cable, uniform as to makeup and relative use by categories. From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved, for each category. The corresponding percentages of use, or reservation, are applied to the cost of the section of cable, i.e., sheath meters times unit cost per meter, to obtain the cost assignable to each category. (B) By using equivalent pair kilometers, i.e., pair kilometers expressed in terms of equivalent gauge. From an analysis of cable engineering and assignment records, determine the equivalent pair kilometers in use for each category by type of facility, e.g., quadded, paired. The equivalent pair

		kilometers are then divided by a cable fill factor to obtain the equivalent pair kilometers in plant. The total equivalent pair kilometers in plant assigned to each category is summarized by type of facility, e.g., quadded and paired, and priced at appropriate average unit costs per equivalent pair kilometer in plant. If desired, this study may be made in terms of circuit kilometers rather than physical pair kilometers, with average cost and fill data consistent with the basis of the facilities kilometer count. (ii) In the assignment of the cost of cable under the two basic methods described in § 36.153(a)(1)(i) consideration is given to the following: (A) Method (A) described in § 36.153(a)(1)(i)(A) will probably be found more desirable where there is a relatively small amount of cable of variable make-up and use by categories. Conversely, method (B) described in § 36.153(a)(1)(i)(B) will probably be more desirable where there is a large amount of cable of variable make-up and use by categories. However, in some cases a combination of both methods may be desirable. (B) It will be desirable in some cases to determine the amount assignable to a particular category by deducting from the total the sum of the amounts assigned to all other categories. (C) For use in the assignment of poles to categories, the equivalent sheath kilometers of aerial cable assigned to each category are determined. For convenience, these quantities are determined in connection with assignment of cable costs. (D) Where an entire cable is assignable to one category, its costs and quantity are, where practicable, directly assigned. (iii) For cables especially arranged for high-frequency transmission such as shielded, disc-insulated and coaxial, recognition is given to the additional costs which are charged to the high-frequency complement. (2) Cable Loading. (i) Methods for assigning the cost of loading coils, cases, etc., to categories are comparable with those

		used in assigning the associated cable to categories. Loading associated with cable which is directly assigned to a given category is also directly assigned. The remaining loading is assigned to categories in either of the following bases: (A) By an analysis of the use made of the loading facilities where a loading coil case includes coils assignable to more than one category, e.g., in the case of a single gauge uniformly loaded section, the percentage used in the related cable assignment are applicable, or (B) By pricing out each category by determining the pair meters of loaded pairs assigned to each category and multiplying by the unit cost per pair meter of loading by type. (3) Other Cable Plant. (i) In view of the small amounts involved, the cost of all protected terminals and gas pressure contactor terminals in the toll cable subaccounts is assigned to the appropriate Interexchange Cable & Wire Facilities categories. The cost of all other terminals in the exchange and toll cable subaccounts is assigned to Exchange Cable and Wire Facilities. (b) Aerial Wire. (1) The cost of wire accounted for as exchange is assigned to the appropriate Exchange Cable & Wire Facilities categories. The cost of wire accounted for as toll, which is used for exchange, is also assigned to the appropriate Exchange Cable & Wire Facilities categories. The cost of the remaining wire accounted for as toll is assigned to the appropriate Interexchange Cable & Wire Facilities categories as described in § 36.156. For companies not maintaining exchange and toll subaccounts, it is necessary to review the plant records and identify wire plant by use. The cost of wire used for providing circuits directly assignable to a category is assigned to that category. The cost of wire used for providing circuit facilities jointly used for exchange and interexchange lines is assigned to categories on the basis of the relative number of circuit kilometers involved. (c) Poles and Antenna Supporting Structures.

		(1) In the assignment of these costs, anchors, guys, crossarms, antenna supporting structure, and right-of-way are included with the poles. (2) Poles. (i) The cost of poles is assigned to categories based on the ratio of the cost of poles to the total cost of aerial wire and aerial cable. (d) Conduit Systems. (1) The cost of conduit systems is assigned to categories on the basis of the assignment of the cost of underground cable.
#2	47 C.F.R § 54.320(b)	(b) All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. This documentation must be maintained for at least ten years from the receipt of funding. All such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors.
#3	47 C.F.R. § 51.917(d)	(d) ***Eligible Recovery for Rate-of-Return Carriers***. (1) Notwithstanding any other provision of the Commission's rules, a Rate-of-Return Carrier may recover the amounts specified in this paragraph through the mechanisms described in paragraphs (e) and (f) of this section. (i) Beginning July 1, 2012, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2012, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2012, using the target methodology required by § 51.705.

		(ii) Beginning July 1, 2013, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2013, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2013, using the target methodology required by § 51.705. (iii) Beginning July 1, 2014, a Rate-of-Return Carrier's eligible recovery will be equal to the 2011 Rate-of-Return Carrier Base Period Revenue multiplied by the Rate-of-Return Carrier Baseline Adjustment Factor less: (A) The Expected Revenues from Transitional Intrastate Access Service for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909 (including the reduction in intrastate End Office Switched Access Service rates), adjusted to reflect the True-Up Adjustment for Transitional Intrastate Access Service for the year beginning July 1, 2012; (B) The Expected Revenues from interstate switched access for the year beginning July 1, 2014, reflecting forecasted demand multiplied by the rates in the rate transition contained in § 51.909, adjusted to reflect the True-Up Adjustment for Interstate Switched Access for the year beginning July 1, 2012; and (C) Expected Net Reciprocal Compensation Revenues for the year beginning July 1, 2014, using the target methodology required by § 51.705, adjusted to reflect the True-Up Adjustment for

		Reciprocal Compensation for the year beginning July 1, 2012. (D) An amount equal to True-up Revenues for Access Recovery Charges for the year beginning July 1, 2012, multiplied by negative one. (iv) Beginning July 1, 2015, and for all subsequent years, a Rate-of-Return Carrier's eligible recovery will be calculated by updating the procedures set forth in paragraph (d)(1)(iii) of this section for the period beginning July 1, 2014, to reflect the passage of an additional year in each subsequent year. (v) If a Rate-of-Return Carrier receives payments for intrastate or interstate switched access services or for Access Recovery Charges after the period used to measure the adjustments to reflect the differences between estimated and actual revenues, it shall treat such payments as actual revenue in the year the payment is received and shall reflect this as an additional adjustment for that year. (vi) If a Rate-of-Return Carrier receives or makes reciprocal compensation payments after the period used to measure the adjustments to reflect the differences between estimated and actual net reciprocal compensation revenues, it shall treat such amounts as actual revenues or payments in the year the payment is received or made and shall reflect this as an additional adjustment for that year. (vii) If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to § 51.917(d). A Rate-of-Return Carrier seeking revenue recovery must annually certify as part of its tariff filings to the Commission and to the relevant state commission that the carrier is not seeking duplicative recovery in the state jurisdiction for any Eligible Recovery subject to the recovery mechanism.

		(viii) (A) If a Rate-of-Return Carrier in any tariff period underestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), and thus has too much Eligible Recovery in that tariff period, it shall refund the amount of any such True-up Revenues or True-up Revenues for Access Recovery Charge that are not offset by the Rate-of-Return Carrier's Eligible Recovery (calculated before including the true-up amounts in the Eligible Recovery calculation) in the true-up tariff period to the Administrator by August 1 following the date of the Rate-of-Return Carrier's annual access tariff filing. (B) If a Rate-of-Return Carrier in any tariff period receives too little Eligible Recovery because it overestimates its projected demand for services covered by § 51.917(b)(6) or 51.915(b)(13), which True-up Revenues and True-up Revenues for Access Recovery Charge it cannot recover in the true-up tariff period because the Rate-of-Return Carrier has a negative Eligible Recovery in the true-up tariff period (before calculating the true-up amount in the Eligible Recovery calculation), the Rate-of-Return Carrier shall treat the unrecoverable true-up amount as its Eligible Recovery for the true-up tariff period.

Attachment I

HC2022LR020

North Central Telephone Cooperative, Inc.

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

USAC Audit No. HC2022LR020

Prepared For:

Universal Service Administrative Company

May 22, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

May 22, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of North Central Telephone Cooperative (Beneficiary), study area code **290573** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from April 14, 2022, to May 22, 2023.

We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
May 22, 2023

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified the following finding, which is summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 36.2(c) Incorrect Accounting of Affiliate Leased Vehicles. The Beneficiary did not properly account for vehicle lease transactions with affiliate.	$3,337	$240,659	-	$243,996

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 290573, for the High Cost Program support in the amount noted in the chart below.

Regarding Finding #1, USAC Management requires the Beneficiary to be placed on a Corrective Action Plan (C.A.P.) to address lack of documentation and data retention procedures. As part of the C.A.P., the Beneficiary must report to High Cost Management, within 60 days of the date of the Notification Letter (to be issued by USAC's High Cost Division), how it plans to improve its documentation processes.

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

	CAF BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$3,337	$240,659	-	$243,996	N/A
Total	**$3,337**	**$240,659**	**-**	**$243,996**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates and serves over 18,000 subscribers during the audit year of 2018 in the state of Tennessee and a portion of southern Kentucky. The Beneficiary, founded in 1951 and headquartered in Lafayette, Tennessee, owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiary were formed for the purpose of providing long distance and other telephone services, computer sales, leasing services, and security systems.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (FCC) pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The 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 service areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return ILEC Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

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

SCOPE
The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$5,894,988
High Cost Loop (HCL)	2018	2020	$4,422,563
CAF Intercarrier Compensation (ICC)	2018	2020	$764,640
		Total	**$11,082,191**

PROCEDURES
We performed the following procedures:

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

B. High Cost Program Process
We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

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

D. Operating Expenses
We obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. We obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. We obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.2681(a)(1)(2) – Improper Accounting for Leases.

CONDITION

CLA obtained and examined documentation, including the Beneficiary's vehicle lease agreement, invoices, and lease calculation spreadsheet to determine whether the Beneficiary accounted for its' affiliate lease transactions in accordance with the FCC Rules. CLA determined that the Beneficiary did not properly account for vehicles leased from its affiliates and in use during the 2018 data period.

The lease agreements signed between the Beneficiary (lessee) North Central Telephone Cooperative, Inc. and its affiliate (lessor) North Central Computer Technologies, Inc. for all 51 leased vehicles specified a lease term of five years and shall automatically extend for one month intervals after the initial fixed term until cancelled in writing by either party giving 30 days' notice to each other. In Section 3. Purchase Option(s) of the Construction Vehicle and Equipment Lease Agreement, it mentions the purchase price shall be determined by mutual agreement. CLA's understanding of "by mutual agreement" indicates the lessor and lessee could agree on the price lower than fair market value (FMV) to purchase the leased assets.

FCC rules state that if a lease contains a bargain purchase option, the lease qualifies as a finance lease.[1] FCC Rules also state that Property rented to affiliates, 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 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.[2]

Due to the leases containing a bargain purchase option, the Beneficiary should have capitalized the assets pursuant to 47 C.F.R §32.2681(a)(1)(2) instead of accounting for the assets as operating leases.

CLA determined the assets to be capitalized by determining the lower of fair market value or Net Book Cost to arrive at the Capitalized Value and corresponding accumulated depreciation for assets. The Beneficiary overstated its lease expenses and understated its assets and the associated accumulated depreciation as summarized in the table below:

Account	As reported in Part 64 Cost Study (A)	Understatement / (Overstated) Amount (B)	Part 64 Revised Amount (A+B)
Land & Support Assets (Acct 2110)	13,165,720	2,284,084	15,449,804
Accumulated Depreciation (Acct 3100-2110)	(7,537,476)	(553,765)	(8,091,241)
Depreciation Expense (Acct 6561-2110)	8,422,416	222,528	8,644,944
Network Support Expenses (Acct 6110)	483,893	(431,370)	52,523

[1] *See* 47 C.F.R § 32.2681(a)(1)(2) (2018).

[2] *See* 47 CFR § 36.2(c) 2018.

CLA concludes that the Beneficiary failed to record leased assets and expense transactions in the proper amounts and to the proper general ledger accounts; therefore, not accurately reporting cost study balances for High Cost purposes.

CAUSE

The Beneficiary did not have an adequate understanding of the Rule regarding the Bargain Purchase Option.[3] In addition, the Beneficiary did not have an adequate process/policy and procedures in place for collecting, reporting, and monitoring data to properly capitalized leased assets from its affiliate that are substantial in amount, substantially equal to the estimated useful life of the leased property. The Beneficiary informed us that they interpreted the Purchase Option in the lease as the price could be higher than market value, but not below.

EFFECT

CLA calculated the monetary effect for this finding by adding $2,284,084 to Land and Support Assets as well as $222,528 in related Depreciation Expense from the Beneficiary's High Cost program filings. Additionally, CLA subtracted $(553,765) and $431,370 in Land and Support Accumulated Depreciation and Network Support Expenses, respectively. CLA summarized the impact of this finding relative to disbursements made from High Cost Program for the twelve month period ending December 31, 2020, in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$3,337
HCL	$240,659
CAF ICC	-
Total	$243,996

RECOMMENDATION

CLA recommends that USAC management seek recovery of the amounts identified in the Effect section above. In addition, CLA recommends that the Beneficiary develop procedures and an adequate review process to ensure it properly determines the type of lease.

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

BENEFICIARY RESPONSE

The Beneficiary does not agree with Finding #1. The Beneficiary acknowledges that a lease qualifies as a capital lease if the lease agreement contains a bargain purchase option per FCC 47 C.F.R. § 32.2681(a)(2). However, the Beneficiary disagrees that the vehicle lease between the Beneficiary and its affiliate included a bargain purchase option. In Section 3. Purchase Option(s) of the Construction Vehicle and Equipment Lease Agreement, it states "The purchase price shall be determined by mutual agreement and may be based upon the residual value specified in Appendix A or on the actual fair market value at the time of the purchase." A bargain purchase option is a clause in a lease agreement that allows the lessee to purchase the leased asset at the end of the lease period at a price substantially below fair market value. The lease agreement did not have a clause that allows the lessee to purchase the leased asset at a price substantially below fair market value. Per the agreement the purchase price would be based on

[3] *See* 47 C.F.R. § 32.2681 (2018).

the residual value or fair market value. The Beneficiary has since purchased the leased assets at fair market value determined by published prices or other third-party sources. The use of fair market value for the purchase of the assets further demonstrates that there was not a bargain purchase option included in the lease. The lease contained language that gave both parties the option to either purchase or sell the leased assets at residual value or fair market value. Further, the Beneficiary's independent CPA reviews the leases as part of the annual financial audit process to validate that the accounting procedures utilized by the Beneficiary met the lease standards. The Beneficiary's CPA has also provided a letter to CLA in response to this finding which further documents their position on the Beneficiary's accounting treatment of the lease.

CLA RESPONSE

Based on the previous responses from the carrier, the Beneficiary purchased the leased assets at fair market value determined by published prices or other third-party sources after the scope of this audit (2020 disbursement for 2018 data). As stated in the Condition of this Report, Section 3 of the Purchase Option(s) of the Construction Vehicle and Equipment Lease Agreement mentions the purchase price shall be determined by mutual agreement. CLA's understanding of "by mutual agreement" indicates the lessor and lessee could agree on the price lower than fair market value to purchase the leased assets. Due to the way the lease agreement was written, the beneficiary had the choice of purchasing the vehicles at either "Bargain Price" or "FMV." The root cause of the violation was the lease contract and associated lease agreements should be corrected to reflect carrier intent before another purchase was made under them. Subsequent purchase intent should have no reflection on how transactions are recorded. It should be based on how the contract is written.

In addition, FCC Rules state that Property rented to affiliates, 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 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.

Therefore, the Finding #1 will remain in effect.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2681(a)(1) and (2) (2018)	**Capital Leases** (a) This account shall include all property acquired under a capital lease. A lease qualifies as a capital 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.
#1	47 C.F.R. § 36.2(c) (2018)	(c) 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.

Attachment J

HC2022LR019

Available For Public Use

Minburn Telecommunications, Inc.

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

USAC Audit No. HC2022LR019

Prepared For:

Universal Service Administrative Company

May 21, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

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CliftonLarsonAllen LLP
CLAconnect.com

EXECUTIVE SUMMARY

May 21, 2023

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

Dear Teleshia Delmar:

CliftonLarsonAllen (CLA) was engaged to conduct a limited review performance audit on the compliance of Minburn Telecommunications, Inc. (Beneficiary), study area code **351158,** for disbursements made from the federal Universal High Cost Program (HCP) during the year ended December 31, 2020. CLA conducted the audit field work from March 1, 2022, to May 21, 2023.

We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The objectives of this performance audit were to evaluate the Beneficiary's compliance with the regulations and orders governing the federal Universal Service High Cost Support Mechanism, set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69, as well as the Federal Communications Commission's (FCC) Orders governing the Universal Service Support for the HCP relative to disbursements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. CLA's responsibility is to evaluate the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
May 21, 2023

AUDIT RESULTS AND RECOVERY ACTION

Our performance audit procedures identified two findings, which are summarized below.

Audit Results	Monetary Effect & Recommended Recovery			
	CAF BLS	HCL	CAF ICC	Total
Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation. The Beneficiary reported incorrect depreciation expense amounts in its reporting for High Cost program purposes.	$15,642	($2,075)	-	**$13,567**
Finding #2: 47 C.F.R. § 36.121 (b)-(d) – Incorrect calculation of Central Office Equipment (COE) categorization adjustment. The Beneficiary calculated incorrect amount for COE categorization adjustment.	($4,456)	($4,035)	-	**($8,491)**
Total	**$11,186**	**($6,110)**	-	**$5,076**

USAC MANAGEMENT RESPONSE

USAC Management concurs with the audit results and will seek recovery from the Beneficiary for SAC 351158, for the High Cost Program support in the amount noted in the chart below.

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

	CAF BLS (A)	HCL (B)	CAF ICC (C)	USAC Recovery Action (A)+(B)+(C)	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	$15,642	($2,075)	-	$13,567	N/A
Finding #2	($4,456)	($4,035)	-	($8,491)	N/A
Total	**11,186**	**($6,110)**	**-**	**$5,076**	**N/A**

BACKGROUND AND PROGRAM OVERVIEW

BACKGROUND

The Beneficiary is a cost-based eligible telecommunications carrier (ETC) that operates in Iowa and serves over 600 subscribers. The Beneficiary is a wholly-owned subsidiary of Minburn Telephone Company which also owns Minburn Cablevision, Inc. and Dallas County Wireless. Each company has their own set of general ledger accounts and related financial statements. The Beneficiary and its affiliated entities provide local access services, Internet, and telecommunications in their service area.

PROGRAM OVERVIEW

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. USAC administers the federal Universal Service Fund (USF), which is designed to ensure that all people, regardless of location or income have affordable access to telecommunications and information services. USAC administers the collections and the disbursement of USF money through four USF programs: Lifeline, E-Rate, High Cost, and Rural Health Care. USAC may not make policy, interpret regulations, or advocate regarding any matter of universal service policy.

The 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 service areas where the cost to provide service exceeds 115% of the national average cost per loop.

- Rate-of-return Incumbent Local Exchange Carrier (ILEC) Connect America Fund Intercarrier Compensation support (CAF ICC): CAF ICC support is available to rate-of-return ILECs to assist them in offsetting intercarrier compensation revenues that they do not have the opportunity to recover through the access recovery charge (ARC) billed to the end user. The calculation of a rate-of-return carrier's Eligible Recovery begins with its Base Period Revenue. A rate-of-return carrier's Base Period Revenue is the sum of certain terminating intrastate switched access revenues and net reciprocal compensation revenues received by March 31, 2012, for services provided during Fiscal Year (FY) 2011, and the projected revenue requirement for interstate switched access services for the 2011-2012 tariff period. The Base Period Revenue for rate-of-return carriers is reduced by 5% in each year beginning with the first year of the reform. A rate-of-return carrier's Eligible Recovery is equal to the adjusted Base Period Revenue for the year in question, less, for the relevant year of the transition, the sum of: (1) projected terminating intrastate switched access revenue; (2) projected interstate switched access revenue; and (3) projected net reciprocal compensation revenue.

- CAF Broadband Loops Support (BLS): CAF BLS, a reform of the Interstate Common Line Support (ICLS), helps carriers recover the difference between loop costs associated with providing voice and/or broadband service and consumer loop revenues.

OBJECTIVES, SCOPE, AND PROCEDURES

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

SCOPE
The chart below summarizes the High Cost program support included in the audit scope.

High Cost Support	Data Period	Disbursements Period	Disbursements Audited
Connect America Fund (CAF) Broadband Loop Support (BLS)	2018	2020	$731,994
High Cost Loop (HCL)	2018	2020	$362,069
CAF Intercarrier Compensation (ICC)	2017-2019	2020	$61,950
		Total	**$1,156,013**

PROCEDURES
We performed the following procedures:

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

B. High Cost Program Process
We obtained an understanding of the Beneficiary's processes related to the High Cost program to determine whether the Beneficiary complied with the FCC Rules. We also obtained and examined documentation to determine whether the Beneficiary reported the information in its High Cost data filings based on the dates established by the FCC Rules for the support mechanisms identified in the audit scope.

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

D. Operating Expenses
We obtained and examined monthly depreciation and plant accumulated depreciation schedules to determine whether the Beneficiary reported accurate depreciation expenses and accumulated depreciation. We obtained and examined the allocation method and summary schedules to determine whether the Beneficiary reported accurate benefit and rent expenses. We obtained and examined general ledger details for select expenses and examined invoices to support the existence of the general support, corporate operations, plant specific, and plant non-specific expenses.

E. Revenues

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

F. Affiliate Transactions

We obtained an understanding of the Beneficiary's organizational structure to determine whether the Beneficiary had any affiliated entities. We also obtained and examined a listing of transactions between the Beneficiary and its affiliated entities, as well as management, service, and lease agreements related to the transactions to determine whether the Beneficiary recorded transactions in accordance with 47. C.F.R. Section 32.27.

G. Cost Allocation

We obtained the Beneficiary's Part 64, Part 36, and Part 69 study balances and agreed these study balances to the amounts utilized to calculate High Cost Program support. We reviewed the Beneficiary's cost apportionment methodology to assess the reasonableness of the allocation methods and examined corresponding data inputs used to calculate the factors. We evaluated the reasonableness of the assignment between regulated, nonregulated, common costs, and the apportionment factors relative to our understanding of the regulated and nonregulated activities performed by the Beneficiary.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 32.2000(g)(2) – Inaccurate Depreciation Expense and Accumulated Depreciation Calculation

CONDITION

CLA obtained and examined the Beneficiary's depreciation, amortization, and related expense schedules to determine whether the Beneficiary properly calculated depreciation expense and the associated accumulated depreciation for High-Cost program purposes. FCC Rules require Beneficiary charges for currently accruing depreciation to be made monthly, and require that the current monthly balance be calculated using the average of each month's beginning and ending balances for each asset account.[1] CLA determined that, while depreciation calculations were performed in accordance with the mandated methodology for most accounts, the Beneficiary did not accurately calculate the depreciation expense for Land and Support Assets (Account 2110) and COE Transmission (Account 2230).

The Beneficiary tore down one of its buildings with original cost of $175,131 in December 2018. However, the Beneficiary did not record the proper accounting entries to remove the asset balance and the corresponding accumulated depreciation from the General Ledger. The carrier instead depreciated the remaining balance of the assets[2], which resulted in the over-depreciation of Account 2110, Land and Support Assets. Also, the Beneficiary's depreciation charges for circuit equipment account resulted in an accumulated depreciation balance that was higher than the asset balance.

The differences between the recalculated twelve months of depreciation expense using the average of the beginning and ending balance of each month and the amount submitted for High-Cost program support are presented below:

Account	Part 64 Reported Amount (A)	Understated / (Overstated) Amount (B)	Part 64 Revised Amount (A + B)
Accumulated Depreciation (Account ACCT 3100_2100 – Land and Support Assets)	$575,510	($109,062)	$466,448
Depreciation Expense (Account ACCT 6560_2110 – Land and Support Assets)	$75,064	($56,523)[3]	$18,541
Accumulated Depreciation (Account DL270_3100_2230 – COE Transmission)	$869,261	($8,484)	$860,777
Depreciation Expense (Account DL520_6560_2230 – COE Transmission)	$60,619	($8,484)	$52,135

[1] 47 CFR 32.2000(g)(2) (2020).

[2] Per email from Tom Campbell, Cost Consultant, received on March 10, 2023

[3] CLA applied 72%, the regulated portion of Land and Support Assets, to the over-depreciation expense amount of $78,542.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate depreciation expense and accumulated depreciation. The Beneficiary informed CLA that an Internal Accounting Adjustment Entry was made during year-end financial audit for preparation for annual tax filing. Due to the small percentage of the total depreciation expense, the adjustment didn't surpass the cost study scope for detailed review of the account. The demolition of a 30-year asset that only was in-service for 11 years is a very rare occurrence, the cost study consultant was not fully trained on the proper treatment of Cost Study rules compared to Generally Accepted Accounting Principles (GAAP) accounting.

EFFECT

CLA calculated the monetary effect of the improper depreciation on building by subtracting $56,523, the regulated portion of the over-depreciation expense amount of $78,542, from the land and support assets depreciation and accumulated depreciation accounts. The accumulated depreciation balance of $52,539 for the building prior to being torn down was also removed from the land and support assets accumulated depreciation balance. Additionally, we subtracted the amount of $8,484 from the COE Transmission depreciation and accumulated depreciation accounts in the Beneficiaries High Cost program filings. The monetary impact of this finding relative to disbursements made from the High Cost Program for the twelve-month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	$15,642
HCL	($2,075)
CAF ICC	-
Total	**$13,567**

RECOMMENDATION

We recommend that USAC Management seek recovery of the amounts identified in the Effect section above. We also recommend that the Beneficiary implements an adequate system to properly calculate depreciation expense and accumulated depreciation reported for High-Cost Program purposes. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at http://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Minburn Telecommunications, Inc. agrees to the findings to seek recovery of the amounts identified. As noted within the audit support documents this was an extremely unique event of the retirement of a Building and that the regular system to calculate depreciation expense and accumulated depreciation reported follow the program rules.

Finding #2: 47 C.F.R. § 36.121 (b)-(d) – Incorrect calculation of COE categorization adjustment.

CONDITION

CLA obtained and examined the Beneficiary's cost study documentation, the general ledger, and the Continuing Property Records (CPRs), to determine whether the amounts allocated between regulated and non-regulated activities in the cost study were accurate. In the FCC Rules, separations procedures for COE have been designed to deal with categories of plant rather than with equipment in an account.[4] In the separation of the cost of COE among the operations, the first step is the assignment of the equipment in each study area to categories.[5] The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment.[6] CLA determined that the Beneficiary did not accurately allocate balances in the COE asset accounts between regulated and non-regulated activities.

The Beneficiary's switching equipment is jointly used with its affiliates. The non-regulated portion of the switching equipment balance of $584,505 amounts to $143,197, which represents 24% of the total balance. However, the Beneficiary did not accurately apply the percentage to calculate the non-regulated portion of the accumulated depreciation, depreciation expense, and switching expense. The difference between non-regulated amounts calculated by the Beneficiary and reported for High Cost Program purposes and amounts calculated by CLA are shown below:

Table 1: Joint-Use Switching (Account 2210)			
Account	**Beneficiary's Non-Regulated Amount (A)**	**Audited Non-Regulated Amount (B)**	**Variance (B-A)**
Accumulated Depreciation (3100-2210)	$86,999	$118,921	$31,922
Depreciation Expense (6560-2210)	$28,582	$17,900	($10,682)
COE Switching Expense (6210)	$11,791	$13,286	$1,495

The Beneficiary's COE categorization study also identified an amount of $253,561, representing 43% of the switching equipment balance, to be reclassified from COE Switching to COE Transmission. However, the Beneficiary did not correctly use this percentage to reclassify portions of the accumulated depreciation, depreciation expense, and maintenance expense from COE Switching to COE Transmission. The difference between reclassification amounts calculated by the Beneficiary and reported for High Cost Program purposes and amounts calculated by CLA are shown below:

[4] 47 CFR 36.121(b) (2020).
[5] 47 CFR 36.121(c) (2020).
[6] 47 CFR 36.121(d) (2020).

Table 2: Reclassification from COE Switching to COE Transmission			
Account	Beneficiary Amount (A)	Audited Amount (B)	Variance (B-A)
Accumulated Depreciation	$284,351	$210,575	($73,776)
Depreciation Expense	$7,010	$31,696	$24,686
Maintenance Expense	$26,978	$23,525	($3,453)

The net impact of these errors on the amounts reported by the Beneficiary is summarized below:

Account	As reported in Part 64 Cost Study (A)	CLA Audited Balances (B)	Variance (B-A)
Accumulated Depreciation - Switching (3100-2210)	$114,066	$155,920	$41,854
Accumulated Depreciation - Transmission (3100-2230)	$869,261	$795,485	($73,776)
Depreciation Expense - Switching (6560-2210)	$37,474	$23,470	($14,004)
Depreciation Expense - Transmission (6560-2230)	$60,619	$85,305	$24,686
COE Switching Expense (6210)	$15,460	$17,419	$1,959
COE Transmission Expense (6230)	$62,541	$59,088	($3,453)

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to correctly calculate cost study adjustments and COE categorization. The Beneficiary informed CLA that its Cost Study calculation was transitioned to a new consultant in 2018 and the roll-over of old files to new study work papers was not properly carried forward.

EFFECT

CLA calculated the monetary effect of this finding by adding $41,854 to the COE Switching accumulated depreciation account and subtracting $73,776 from the COE Transmission accumulated depreciation account. Additionally, there was a net addition of $10,682 to COE depreciation accounts and a net subtraction of $1,454 from COE maintenance expense accounts. The monetary impact of this finding relative to disbursements made from the High Cost Program for the twelve-month period ending December 31, 2020, is summarized in the table below.

Support Type	Monetary Effect & Recommended Recovery
CAF BLS	($4,456)
HCL	($4,035)
CAF ICC	-
Total	**($8,491)**

RECOMMENDATION

No recovery is recommended for this finding as the finding is an underpayment of support. We recommend that the Beneficiary implements an adequate system to ensure the proper COE amounts are reported for High Cost Program purposes. The Beneficiary may learn more information about documentation and reporting requirements on USAC's website at www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-high-cost-program/.

BENEFICIARY RESPONSE

Minburn Telecommunications, Inc. agrees to the findings that the Beneficiary was underpaid support and would be eligible for reimbursement if a recommendation is made by USAC.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 32.2000(g)(2)(2020)	"(g) Depreciation accounting (2) Depreciation charges. (i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges. (ii) Companies, upon receiving prior approval from this Commission, or, upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this section apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant. (iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. Current monthly charges shall normally be computed by the application of one-twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average monthly balance shall be computed using the balance as of the first and last days of the current month. (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section."
#2	47 C.F.R. § 36.121(b)-(d)(2020)	(b) Records of the cost of central office equipment are usually maintained for each study area

Finding	Criteria	Description
		separately by accounts. However, each account frequently includes equipment having more than one use. Also, equipment in one account frequently is associated closely with equipment in the same building in another account. Therefore, the separations procedures for central office equipment have been designed to deal with categories of plant rather than with equipment in an account. (c) In the separation of the cost of central office equipment among the operations, the first step is the assignment of the equipment in each study area to categories. The basic method of making this assignment is the identification of the equipment assignable to each category, and the determination of the cost of the identified equipment by analysis of accounting, engineering and other records. (1) The cost of common equipment not assigned to a specific category, e.g., common power equipment, including emergency power equipment, aisle lighting and framework, including distributing frames, is distributed among the categories in proportion to the cost of equipment, (excluding power equipment not dependent upon common power equipment) directly assigned to categories. (i) The cost of power equipment used by one category is assigned directly to that category, e.g., 130-volt power supply provided for circuit equipment. The cost of emergency power equipment protecting only power equipment used by one category is also assigned directly to that category. (ii) Where appropriate, a weighting factor is applied to the cost of circuit equipment in distributing the power plant costs not directly assigned, in order to reflect the generally greater power use per dollar of cost of this equipment. (d) The second step is the apportionment of the cost of the equipment in each category among the operations through the application of appropriate use factors or by direct assignment.

Summary of Low Income Support Mechanism Beneficiary Audit Report Released: July 2023

Entity Name	**Number of Findings**	**Significant Findings**	**Amount of Support**	**Monetary Effect**	**USAC Management Recovery Action**	**Entity Disagreement**
Lingo Management, LLC **Attachment A**	3	• No significant findings.	$543,872	$17,281	$17,281	Partial
Total	**3**		**$543,872**	**$17,281**	**$17,281**	

Attachment A

LI2021LR005

Available For Public Use

Lingo Management, LLC

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

USAC Audit No. LI2021LR005

CONTENTS

EXECUTIVE SUMMARY

March 22, 2023

April Gilstrap
Regulatory Manager
Lingo Management, LLC
115 Gateway Drive
Macon, GA 31210

Dear Ms. Gilstrap:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Lingo Management, LLC (Beneficiary, formerly known as Birch Capital LLC or Tempo Telecom, LLC), for all study area codes (SACs) where the Beneficiary claimed subscribers during the calendar year, 2019, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communication Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

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

USAC may have omitted certain information from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Jeanette Santana-Gonzalez

Jeanette Santana-Gonzalez
USAC Senior Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Timothy O'Brien, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect and Recommended Recovery
Finding #1: 47 C.F.R. § 54.201(b) - Subscribers Outside of Service Area. The Beneficiary claimed subscribers that resided outside of its designated service area.	$15,475
Finding #2: 47 C.F.R. § 54.410(c)(1)(i)(A)(B)(ii) – Inadequate Re-enrollment Process. The Beneficiary failed to follow enrollment process requirements of examining eligibility and identity documents and completing an enrollment form for subscribers who de-enrolled from NLAD and later re-enrolled.	$1,306
Finding #3: 47 C.F.R. § 54.407 (c)(2) - Improper Non-Usage Process: Failure to De-enroll. The Beneficiary failed to de-enroll 10 subscribers after 45 days of non-usage.	$500
Total Net Monetary Effect	**$17,281**

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, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the calendar year 2019 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
189031	MD	Lifeline	3013	$ 27,872
209032	VA	Lifeline	750	$ 6,938
229024	WV	Lifeline	3358	$ 31,065
249026	SC	Lifeline	1664	$15,394
269045	KY	Lifeline	845	$7,760
309020	OH	Lifeline	4925	$45,559
319042	MI	Lifeline	9522	$88,079
329022	IN	Lifeline	3751	$34,698
339048	WI	Lifeline	2910	$26,919

359142	IA	Lifeline	183	$1,694
369033	MN	Lifeline	487	$4,507
379031	NE	Lifeline	1149	$10,627
389021	ND	Lifeline	101	$936
419037	KS	Lifeline	374	$3,463
429030	MO	Lifeline	3694	$34,171
469027	CO	Lifeline	15159	$140,220
509015	UT	Lifeline	697	$6,450
519014	WY	Lifeline	511	$4,728
559022	NV	Lifeline	3487	$32,255
589015	RI	Lifeline	867	$8,021
629009	HI	Lifeline	1353	$12,516
		Total	**58,800**	**$543,872**

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

BACKGROUND

The Beneficiary is a competitive eligible telecommunications carrier (ETC) that operates in the states identified in the Scope table above.

PROCEDURES

AAD performed the following procedures:

A. Lifeline Claims System

AAD obtained and examined the Beneficiary's LCS submissions for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files. AAD used computer assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process

AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 58 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households

AAD obtained an understanding of the Beneficiary's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Beneficiary to comply with the Independent Economic Household (IEH) requirements. AAD obtained and tested documentation or National Verifier results for 23 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts

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

E. Form 555

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

F. Non-Usage Process

AAD obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation to determine whether the Beneficiary properly validated its low-income subscribers' continued use of the Lifeline-supported service. The scope of this audit did not include an assessment of the Beneficiary's systems that provision process and monitor subscribers' usage activities.

G. Minimum Service Standard

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

H. Reseller-based Telecommunication Providers

AAD obtained an understanding of the Beneficiary's leased phone lines relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation to determine whether the Beneficiary properly claimed low-income subscribers that used the leased phone lines.

I. Enrollment Representative Accountability

AAD obtained an understanding of the Beneficiary's enrollment representative process relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation for six enrollment representatives to determine whether the Beneficiary compensates its enrollment representatives on a commission basis.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.201(b) (2018) – Subscribers Outside of Service Area

CONDITION

AAD obtained and examined the Beneficiary's subscriber listing that was used to support the number of Lifeline subscribers claimed for reimbursement through the Lifeline Claims System (LCS) to determine whether the Beneficiary provided services to subscribers who resided in the areas where it was designated as an Eligible Telecommunications Carrier (ETC).[1] AAD examined the ETC orders for the 21 study area codes (SACs) under audit to identify the designated service area. AAD identified a total of 88 subscribers who resided in the areas outside the designated service area across 6 of the SACs:[2]

SAC	No. of Affected Subscribers
189031	1
229024	8
339048	7
389021	20
419037	1
469027	51
Total No. of Affected Subscribers	**88**

The Beneficiary claimed 88 subscribers in the LCS who resided outside of the Beneficiary's designated service area. Therefore, AAD concludes that these subscribers were not eligible to receive Lifeline Program support from this Beneficiary. The Beneficiary must not claim subscribers for reimbursement in the LCS in areas where it is not designated as an ETC.[3]

CAUSE

The Beneficiary did not have an adequate process in place for ensuring zip codes outside of its service areas were removed from its systems. [4]

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[1] 47 C.F.R. § 54.201(b) (2018)

[2] The state orders examined that approved Tempo Telecom, LLC for designation as an Eligible Telecommunications Carrier for the limited purpose of offering Lifeline Service to qualified households include the following:

- Public Service Commissions of the State of: Georgia, Docket No. 36360, February 6, 2014 and amended on May 20, 2015; Maryland, ML#151191, TE-11220, January 15, 2014; North Dakota, Case No. PU-14-24, November 6, 2014; and Wisconsin, Application No. 17085-TI-101, PSC REF#189866, August 23, 2013.
- Public Utilities Commission of the State of: Colorado, Decision No. R-14-1254, Proceeding No. 13A-1374T, October 17, 2014, and Nevada, Docket No. 13-11031, March 4, 2014.

[3] *See* 47 C.F.R. § 54.201(a)(1), (b) (2018).

[4] In response to Audit Inquiry Record (AIR) #31 received on February 27, 2023.

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 88 subscribers based on the subscribers' address effective in LCS as of January 1, 2019, the start of the audit period. AAD identified a total of 1,673 instances for subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25), rounded to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
189031	Lifeline (Non-Tribal)	$333
229024	Lifeline (Non-Tribal)	$1,397
339048	Lifeline (Non-Tribal)	$2,007
389021	Lifeline (Non-Tribal)	$536
419037	Lifeline (Non-Tribal)	$83
469027	Lifeline (Non-Tribal)	$11,119
Total		**$15,475**

RECOMMENDATION

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

The Beneficiary must implement policies, controls, and procedures to ensure that it claims Lifeline Program support only for eligible subscribers who reside within the Beneficiary's designated service area. Specifically, the Beneficiary must develop a process to identify that only submit claims for Lifeline for subscribers that reside within the Beneficiary's designated service area. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

> There were some zip codes in the exchanges we originally mapped that crossed CLLI boundaries that led to the issue. Also, CLLIs may change over time. However, we would like to note, although there could be discrepancies in the service areas, Tempo did provide the Lifeline services to these eligible subscribers and a total liability determination would not be fair and equitable.

AAD RESPONSE

In its response, the Beneficiary states that "[Common Language Location Identification] (CLLIs) may change over time." AAD clarifies that regardless of changes in the CLLI boundaries, it would still be the Beneficiary's responsibility to have a process in place to ensure they update zip codes that they are allowed to serve.

The Beneficiary also states, "Tempo did provide the Lifeline services to these eligible subscribers." AAD agrees that the services were provided; however, per 47 C.F.R. § 54.201(b) (2018), since these subscribers were outside of the Beneficiary's designated service area, the Beneficiary could not claim these subscribers for Lifeline reimbursement. Therefore, our position remains the same.

Finding #2: 47 C.F.R. § 54.410(C)(1)(i)(A)(B)(ii) – Inadequate Re-enrollment Process

CONDITION

AAD obtained and examined the recertification details to support the Beneficiary's Form 555 submitted in January 2019, to determine whether a non-statistical sample of 16 subscribers identified by the Beneficiary as scheduled for de-enrollment due to failure to recertify for non-usage, were subsequently de-enrolled and subject to new certification if claimed in 2019. We noted that 12 of these subscribers were de-enrolled and re-enrolled for Lifeline purposes, but there was no application form or identity and eligibility documents retained.[5] The Beneficiary instead provided Interactive Voice Response (IVR) records for nine subscribers and did not provide any documentation for the remaining three subscribers.[6] Because an IVR record was completed, the subscribers only verbally stated their continued eligibility in one Lifeline program, based on AAD's review of the recordings. AAD also noted that for seven of the 12 subscribers, the Beneficiary's IVR system allowed a recertification to be completed after the subscriber was de-enrolled.[7]

Because the Beneficiary did not provide the appropriate certification documentation for these nine subscribers, AAD concludes that these subscribers were not eligible to receive Lifeline Program support and be claimed by the Beneficiary on its LCS submissions.

CAUSE

The Beneficiary did not have an adequate process in place to differentiate subscribers that required re-enrollment versus recertification.[8]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the nine subscribers subsequent to the subscriber's Lifeline start date, as noted in the NLAD, until the earlier of a subsequent de-enrollment or December 31, 2019. AAD identified a total of 141 instances for subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25), rounded to the nearest whole dollar. AAD summarized the results below:

[5] *See* C.F.R. 47 § 54.404(b)(11) (2018).
[6] *See* C.F.R. 47 § 54.410(c)(1) (2018).
[7] *See* C.F.R. 47 § 54.416(a)(1) (2018).
[8] *See* Beneficiary response to audit inquiry received March 2, 2023.

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
189031	Lifeline (Non-Tribal)	$93
209032	Lifeline (Non-Tribal)	$204
249026	Lifeline (Non-Tribal)	$102
269045	Lifeline (Non-Tribal)	$111
319042	Lifeline (Non-Tribal)	$148
339048	Lifeline (Non-Tribal)	$111
359142	Lifeline (Non-Tribal)	$157
419037	Lifeline (Non-Tribal)	$93
429030	Lifeline (Non-Tribal)	$46
589015	Lifeline (Non-Tribal)	$130
629009	Lifeline (Non-Tribal)	$111
Total		**$1,306**

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure it obtains appropriate documentation to support an applicant's eligibility and new certification after a de-enrollment. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

> We did have an adequate process for re-enrollment that was followed. IVR enrollment is a correct process. This was a human error as a result of our representative(s) sending them to the incorrect IVR (Recertification IVR).

AAD RESPONSE

AAD agrees with the updated cause. Since there is no disagreement that these subscribers did not go through the enrollment process, AAD's condition and recommendations remain unchanged.

Finding #3: 47 C.F.R. § 54.407(c)(2) – Improper Non-Usage Process: Failure to De-enroll

CONDITION

AAD selected a non-statistical sample of 67 subscribers and requested the call detail records to determine if the Beneficiary only claimed subscribers that met the allowable usage activities identified in the FCC Rules.[9] AAD identified that ten of the 67 subscribers selected did not have eligible usage activities for a 45-day

[9] 47 C.F.R. § 54.407(c)(2) (2018).

period[10] and received the Lifeline benefit an additional two to nine months after they should have been de-enrolled. AAD concludes that the Beneficiary incorrectly claimed these ten subscribers in its LCS submissions after the 45-day non-usage period.

CAUSE

The Beneficiary did not have an adequate system in place to track, monitor, and report usage activities that is in compliance with the FCC Rules. The Beneficiary indicated that the non-usage activity for these subscribers was missed because of human error.[11]

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the ten subscribers after the 45-day period of non-usage was met. AAD identified a total of 54 such instances and multiplied them by the Lifeline support amount reimbursed to the Beneficiary ($9.25), rounded to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
189031	Lifeline (Non-Tribal)	$167
339048	Lifeline (Non-Tribal)	$65
379031	Lifeline (Non-Tribal)	$18
469027	Lifeline (Non-Tribal)	$185
509015	Lifeline (Non-Tribal)	$65
Total		**$500**

RECOMMENDATION

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

The Beneficiary must implement policies, controls, and procedures to ensure that it tracks the appropriate activities identified in 47 C.F.R. § 54.407(c)(2) and de-enrolls subscribers who fail to perform one of the allowable activities within the required timeframe. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

> We reviewed the usage for those subscribers and came to the same conclusion. There were gaps in their usage where they should have been disconnected for non-usage that we missed because of human error.

[10] 47 C.F.R. § 54.405(e)(3) (2018).
[11] *See* beneficiary response to audit inquiry received November 16, 2022 and November 18, 2022.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.201(b) (2018).	A state commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (d) of this section as an eligible telecommunications carrier for a service area designated by the state commission.
#1	47 C.F.R. § 54.201(d) (2018).	A common carrier designated as an eligible telecommunications carrier under this section shall be eligible to receive universal service support in accordance with section 254 of the Act and, except as described in paragraph (d)(3) of this section, shall throughout the service area for which the designation is received.
#1	47 C.F.R. § 54.207(a) (2018).	The term service area means a geographic area established by a state commission for the purpose of determining universal service obligations and support mechanisms. A service area defines the overall area for which the carrier shall receive support from federal universal service support mechanisms.
#1	Public Service Commission of the State of Georgia, Docket No. 36360, February 6, 2014 and amended on May 20, 2015.	The Staff recommended that the Commission designate Tempo Telecom as an ETC in the wire centers shown in Attachment I for the limited purpose of providing Lifeline service.
#1	Public Service Commission of the State of Maryland, ML#151191, TE-11220, January 15, 2014 and Application of Tempo Telecom, LLC for Designation as an Eligible Telecom Carrier in MD, Dec 9, 2013.	**Approval:** The Commission has reviewed the Application for Designation as an Eligible Telecommunications Carrier to Provide Lifeline Service on a Wireless Basis filed on December 9, 2013 by Tempo Telecom, LLC. After considering this matter at the January 15, 2014 Administrative Meeting, the Commission granted the Company as an Eligible Telecommunications Carrier ("ETC") for the service territory specified in its application, for the limited purpose of offering Lifeline service to qualified households in Maryland, effective January 15, 2014, provided no adverse comments are filed within 30 days following the effective date and the Company complies with the Commission requirements described in its May 4, 2012 Notice to ETCs. **Application: I. Overview of Tempo**. Specifically, Tempo's designated Service Area in Maryland is Sprint's wireless coverage area or Sprint's licensed service area, which comprises a portion of or the entirety of the exchanges set forth in Exhibit 6. Tempo will serve any potential customer in the exchanges listed in Exhibit 6 to the extent resold wireless services are available from Sprint in the customer's geographic area.
#1	Public Service Commission of the State of North Dakota,	**Universal Service Support Area** In this proceeding, Tempo is requesting ETC designation throughout the service area of Sprint in the state of North Dakota; a listing and description of each exchange

Finding	Criteria	Description
	Case No. PU-14-24, November 6, 2014.	for which Tempo is seeking ETC status in North Dakota is given in Exhibit 6 of the Application. **Order** The commission orders: 1. Tempo Telecom, LLC, is designated an eligible telecommunications carrier for the purpose of receiving federal universal service support for low-income consumers under 47 CFR Part 54 Subpart E. The designated service area in this proceeding consists of all the service area described in Exhibit 6, which is incorporated by reference and attached to this order.
#1	Public Service Commission of the State of Wisconsin, PSC REF#189866, Docket 17805-TI-101, August 23, 2013.	**Introduction** Tempo requested ETC designation throughout its service territory, for the purpose of receiving low income program support. The list of wire centers for which Tempo seeks ETC designation is shown in the Second Amendment to its application
#1	Public Utilities Commission of the State of Colorado, Decision No. R-14-1254, Proceeding No. 13A-1374T, October 17, 2014.	118. Further, Tempo will provide its Lifeline service in areas directly served by Sprint.
#1	Public Utilities Commission of the State of Nevada, Docket No. 13-11031, March 4, 2014.	**IV. Stipulation Parties Position** 1. In the Stipulation, Tempo and Staff (collectively, the "Parties") agree that the Application should be approved, designating Tempo as a competitive ETC within the service areas of Nevada Bell Telephone Company d/b/a AT&T Nevada, Central Telephone Company d/b/a CenturyLink, CC Communications, Frontier Communications of the Southwest, Inc.-NV, Moapa Valley Telephone Co., Citizens Telecomm Co. of NV d/b/a Frontier Communications of NV, and Rio Virgin Telephone Co. for purposes of qualifying for support from the federal Universal Service Fund to provide Lifeline service to qualifying customers.
#2	47 C.F.R. § 54.410(c)(1) (2018).	Initial program-based eligibility determination. (1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b), an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures: (A) If the eligible telecommunications carrier can determine a prospective subscriber's program-based eligibility for Lifeline by

Finding	Criteria	Description
		accessing one or more databases containing information regarding enrollment in qualifying assistance programs (“eligibility databases”), the eligible telecommunications carrier must access such eligibility databases to determine whether the prospective subscriber qualifies for Lifeline based on participation in a qualifying assistance program; or (B) If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program. (ii) Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline, consistent with § 54.417, except to the extent such documentation is retained by the National Verifier.
#2	47 C.F.R. § 54.416 (a)(1) (2018).	Eligible telecommunications carrier certifications. An officer of each eligible telecommunications carrier must certify that the carrier has policies and procedures in place to ensure that its Lifeline subscribers are eligible to receive Lifeline services. Each eligible telecommunications carrier must make this certification annually to the Administrator as part of the carrier's submission of annual re-certification data pursuant to this section.
#2	47 C.F.R. § 54.417(a) (2017)(2018)	Recordkeeping Requirements. 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 §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 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.
#3	47 C.F.R. 54.407(c)(2) (2018).	Reimbursement for Offering Lifeline After service activation, an eligible telecommunications carrier shall only continue to receive universal service support reimbursement for such Lifeline service provided to subscribers who have used the

Finding	Criteria	Description
		service within the last 30 days, or who have cured their non-usage as provided for in § 54.405(e)(3). Any of these activities, if undertaken by the subscriber, will establish “usage” of the Lifeline service: (i) Completion of an outbound call or usage of data; (ii) Purchase of minutes or data from the eligible telecommunications carrier to add to the subscriber's service plan; (iii) Answering an incoming call from a party other than the eligible telecommunications carrier or the eligible telecommunications carrier's agent or representative; (iv) Responding to direct contact from the eligible communications carrier and confirming that he or she wants to continue receiving Lifeline service; or (v) Sending a text message.
#3	47 C.F.R. § 54.405(e)(3) (2018).	De-enrollment for non-usage. Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as “usage” is defined in § 54.407(c)(2), for 30 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 15 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 15-day notice period will result in service termination for non-usage under this paragraph.

This concludes the report.

Summary of the Low Income Support Mechanism Beneficiary Audit Report Released: September 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
CellSpan, Inc. **Attachment B**	6	• No significant findings.	$1,443,628	$35,269	$33,362	N
Total	**6**		**$1,443,628**	**$35,269**	**$33,362**	

Attachment B

LI2021LR006

Available For Public Use

Cellspan, Inc.

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

USAC Audit No. LI2021LR006

CONTENTS

EXECUTIVE SUMMARY

April 14, 2023

David Martin
Chief Executive Officer
Cellspan, Inc.
17218 Preston Rd Suite 3000
Dallas, TX 75252

Dear Mr. Martin:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Cellspan, Inc. (Beneficiary), for all study area codes (SACs) where the Beneficiary claimed subscribers during the calendar year, 2019, using the regulations and orders governing the federal Universal Service Low Income Support Mechanism (also known as the Lifeline Program), set forth in 47 C.F.R. Part 54, as well as other program requirements, including any state-mandated Lifeline requirements (collectively, the Federal Communication Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the data used to calculate support, as well as performing other procedures we considered necessary to form a conclusion. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed six 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 FCC Rules that were in effect during the audit period.

USAC may have omitted certain information from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Jeanette Santana-Gonzalez

Jeanette Santana-Gonzalez
USAC Senior Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Timothy O'Brien, USAC Vice President, Lifeline Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Exceptions[1] (B)	Recommended Recovery (A) - (B)
Finding #1: 47 C.F.R. § 54.400(g) - Duplicative Support. The Beneficiary claimed duplicative support for 368 subscribers based on duplicative Benefit Qualifying Persons.	$22,089	$0	$22,089
Finding #2: 47 C.F.R. § 54.405(e) – Inadequate De-Enrollment Process: Failure to De-Enroll. The Beneficiary did not de-enroll 207 Subscribers after they failed to recertify.	$5,772	$0	$5,772
Finding #3: 47 C.F.R. § 54.417(a) - Lack of Documentation: Certification/ Recertification Forms and Pass-Through Documentation. The Beneficiary did not provide recertification or certification forms for certain subscribers or proof of pass through of the Lifeline benefit for certain subscribers for at least one month.	$2,664	$1,240	$1,424
Finding #4: 47 C.F.R. § 54.407(c)(1) - Improper Claims before Service Activation. The Beneficiary claimed 211 subscribers prior to activating service.	$2,274	$121	$2,153
Finding #5: 47 C.F.R. § 54.201(b) - Subscribers Outside of Service Area. The Beneficiary claimed certain subscribers that were located outside the its designated service area.	$1,369	$546	$823
Finding #6: 47 C.F.R. § 54.410(c)(1)(i) – Inadequate Certification and Eligibility Documentation. The Beneficiary claimed subscribers with proof of eligibility that did not agree to the eligibility program on the certification/ recertification form or subscriber information did not agree with the National Lifeline Accountability Database records.	$1,101	$0	$1,101
Total Net Monetary Effect	**$35,269**	**$1,907**	**$33,362**

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.

[1] If the Beneficiary files an appeal and is successful, USAC will discontinue recovery efforts for the finding(s) that were resolved by the appeal decision. If there is overlapping recovery (*i.e.,* recovery that is included in two or more findings), the overlapping recovery will be recovered based on the finding(s) that were not resolved by the appeal decision.

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

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

SCOPE
The following chart summarizes the Lifeline Program support the Beneficiary received based on its Lifeline Claims System (LCS) submissions for the calendar year 2019 (the audit period):

SAC Number	State/Territory	Support Type	Number of Subscriber Claims	Amount of Support
189033	MD	Lifeline (Non-Tribal)	80,090	$740,823
209033	WV	Lifeline (Non-Tribal)	625	$5,781
409036	AR	Lifeline (Non-Tribal)	75,354	$697,024
		Total	**156,069**	**$1,443,628**

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

BACKGROUND
The Beneficiary is a competitive eligible telecommunications carrier (ETC) that operates in the states identified in the Scope table above.

PROCEDURES
AAD performed the following procedures:

A. Lifeline Claims System

AAD obtained and examined the Beneficiary's LCS submissions for accuracy by comparing the amounts reported to the National Lifeline Accountability Database (NLAD) and the Beneficiary's data files. AAD used computer-assisted auditing techniques to analyze the data files to determine whether:

- The total number of subscribers agreed to what was reported on the LCS submission and in NLAD or the comparable state database for the same month.
- The data file contained subscribers who resided outside of the Beneficiary's ETC-designated service area.
- The data file contained duplicate subscribers.
- The data file contained deceased subscribers.
- The data file contained transferred subscribers.
- The data file contained blank telephone numbers/addresses or business names/addresses.
- Lifeline Program support was provided to subscribers whose lines were activated after the audit period.
- Lifeline Program support was provided to subscribers whose lines were disconnected prior to the audit period.

B. Program Eligibility, Certification and Recertification Process
AAD obtained an understanding of the Beneficiary's enrollment, program eligibility, certification, and recertification processes relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also obtained and examined certification and/or recertification documentation or National Verifier results for 68 subscribers to determine whether the subscribers were eligible to receive Lifeline Program discounts.

C. Independent Economic Households
AAD obtained an understanding of the Beneficiary's enrollment and certification processes relating to the Lifeline Program to determine the steps taken by the Beneficiary to comply with the Independent Economic Household (IEH) requirements. AAD obtained and tested documentation or National Verifier results for 27 subscribers to determine whether the subscribers properly certified compliance with the IEH requirements.

D. Lifeline Subscriber Discounts
AAD obtained and examined documentation to demonstrate the pass through of Lifeline Program support for 70 subscribers.

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

F. Non-Usage Process
AAD obtained an understanding of the Beneficiary's non-usage process relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation to determine whether the Beneficiary properly validated its low-income subscribers' continued use of the Lifeline-supported service. The scope of this audit did not include an assessment of the Beneficiary's systems that provision process and monitor subscribers' usage activities.

G. Minimum Service Standard
AAD obtained and examined the Beneficiary's evidence of the level of service provided for 70 subscribers to determine whether the Beneficiary provided eligible services that meet the minimum service standards and complied with the FCC Rules.

H. Reseller-based Telecommunication Providers
AAD obtained an understanding of the Beneficiary's leased phone lines relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation to determine whether the Beneficiary properly claimed low-income subscribers' that used the leased phone lines.

I. Enrollment Representative Accountability
AAD obtained an understanding of the Beneficiary's enrollment representative process relating to the Lifeline Program to determine whether the Beneficiary complied with the FCC Rules. AAD also examined documentation for six enrollment representatives to determine whether the Beneficiary compensates its enrollment representatives on a commission basis.

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 54.400(g)(2018) – Duplicative Support

CONDITION

AAD obtained and examined the subscriber data from both the National Lifeline Accountability Database (NLAD) System and the Lifeline Claims System (LCS) and used computer-assisted auditing techniques (CAATS) over the subscriber's Personal Identifiable Information (PII) to identify instances of duplicate claims for the same eligible subscriber or benefit qualifying persons (BQPs).[2] This analysis resulted in a total of 453 duplicative subscriber records identified, and 368 subscriber claims of duplicative support because of BQPs being used on multiple subscriber records, and as either a BQP or a subscriber.

AAD then selected 41 of the 453 duplicative records, which were associated with three BQPs, and obtained and examined the certification or recertification forms and supporting eligibility documentation. AAD noted the eligibility documentation was identical for the subscriber records associated with two[3] of the three BQPs. Based on the results of our testing, AAD concludes that duplicative eligibility documentation was used for all of the 453 subscriber records.[4]

CAUSE

The Beneficiary did not have adequate procedures in place to prevent more than one subscriber from using the same BQP to claim support. The Beneficiary also stated that its systems were not designed to accurately track the data reported on the FCC certification forms.[5]

EFFECT

AAD calculated the monetary effect of this finding by identifying the subscriber record with the earliest service initiation date as the acceptable claim and flagging the remaining subscribers as duplicative. AAD counted the claims per month per duplicative subscriber, which resulted in 2,388 instances (months) of duplicative claims during the audit period. AAD multiplied the number of instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25), rounded to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect and Recommended Recovery
409036	Lifeline (Non-Tribal)	$22,089

[2] 47 C.F.R. § 54.409(a)(2).
[3] AAD could not to examine any of the recertifications associated with the third BQP because all the subscribers de-enrolled or transferred out before their anniversary date.
[4] 47 C.F.R. § 54.409(c).
[5] Beneficiary response to AIR #26 received February 24, 2023.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the amounts identified in the Effect section above and determine if further recovery is necessary for the cited subscribers past the audit period.

The Beneficiary must implement policies, procedures, and controls to mitigate claiming duplicative support and to monitor activity performed by agents on the Beneficiary's behalf. Specifically, the Beneficiary must implement adequate systems that accurately track data and unique records for FCC reporting. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at [https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.](https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/)

BENEFICIARY RESPONSE

In 2021 V-Care placed a flag on enrollment to catch duplicate BQP's. The order will not be approved if BQP subscriber is active.

FINDING #2: 47 C.F.R. § 54.405(e)(4) – Inadequate De-enrollment Process – Failure to De-enroll

CONDITION

AAD obtained and examined the Beneficiary's 2018 recertification details that accompanied the Form 555 recertification submission for 2019, to determine whether the Beneficiary de-enrolled subscribers who failed to re-certify their continued eligibility. The Beneficiary did not de-enroll 207 (169 from SAC 189033 and 38 from SAC 409036) of the 4,709 subscribers who failed to recertify, within 5 business days of the recertification deadline. Of the 207 subscribers, the Beneficiary continued to claim Lifeline support for 177 subscribers (142 from SAC 189033 and 35 from SAC 409036) an additional one to eight months past the required de-enrollment period. The remaining subscribers were de-enrolled or transferred out after their recertification deadline, but within the same month of the deadline, thus claims for these subscribers were not submitted. Because the Beneficiary did not de-enroll the subscribers who failed to re-certify their continued eligibility, AAD concludes the subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have an adequate system in place for collecting, reporting, and monitoring data to maintain an accurate subscriber listing in NLAD by ensuring that subscribers who had failed to recertify were properly de-enrolled. The Beneficiary informed AAD that it did not properly classify the noted subscribers in their system as ineligible once they failed recertification.[6]

[6] Beneficiary response to AIR #26 received February 24, 2023.

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 177 subscribers after the month of the 2018 anniversary of the service initiation date for each subscriber. AAD identified a total of 624 instances and multiplied the number of instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25), for both SACs rounded to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Instances	Monetary Effect and Recommended Recovery
189033	Lifeline (Non-Tribal)	541	$5,004
409036	Lifeline (Non-Tribal)	83	$768
Total		**624**	**$5,772**

RECOMMENDATION

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

Since the launch of the National Verifier, de-enrollment for failed recertifications is now the responsibility of USAC. AAD clarifies that this condition was noted prior to the launch of the National Verifier. However, the Beneficiary must ensure that the data they are reporting on the Form 555 is accurate and complete and should enact policies and procedures to ensure its accuracy. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

After reviewing this data, I've discussed with V-Care on the importance of monitoring these dates. They are usually on top of this area of de-enrollment. Also, Cellspan associates will monitor these dates and report to V-care if any de-enrollment is outside the dates.

FINDING #3: 47 C.F.R. § 54.417(a) – Lack of Documentation: Certification/ Recertification Forms and Pass-Through Documentation

CONDITION

AAD requested certification and recertification forms for a non-statistical sample of 27 subscribers who resided at the same address, and documentation showing the pass-through of the Lifeline benefit for a non-statistical sample of 68 subscribers to determine the validity of the Beneficiary's claims for Lifeline Program support. The Beneficiary did not provide the following requested documentation:

Documentation	Number of Affected Subscriber Documentation
Pass-through documentation indicating the monthly replenishment of minutes per each subscriber's service plans prior to June 2019 and/or various months between June and December 2019[7]	73[8]
Certification form[9]	1
Recertification form[10]	1
Total No. of Affected Subscribers	**75**

Because of the Beneficiary's failure to provide supporting documentation to substantiate certification, recertification, and pass-through of Lifeline support via replenishment of minutes, AAD concludes that these subscribers were not eligible to receive Lifeline Program support.[11]

CAUSE

The Beneficiary did not have adequate documentation or data retention procedures to ensure the proper retention of required documentation. The Beneficiary informed AAD that its systems were not designed to accurately track the data requested.[12]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 75 subscribers where documentation was not maintained (288 instances). AAD multiplied the total 288 instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25) rounded to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect (A)	Overlapping Exceptions (B)	Recommended Recovery (A) - (B)
189033	Lifeline (Non-Tribal)	$805	$0	$805
209033	Lifeline (Non-Tribal)	$111	$0	$111
409036	Lifeline (Non-Tribal)	$1,748	$1,240	$508
Total		**$2,664**	**$1,240**	**$1,424**

[7] 47 C.F.R. § 54.403(a)(1).
[8] In total AAD reviewed 68 subscriber's documents of which 55 were missing documentation prior to June 2019, eight were missing at least one month between June and December 2019, and 10 were missing documentation between both time periods.
[9] 47 C.F.R. § 54.410(c)(1)(i).
[10] 47 C.F.R. § 54.410(f)(1).
[11] 47 C.F.R. § 54.404(b)(11).
[12] Beneficiary response to AIR #26 received February 24, 2023.

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure it maintains appropriate documentation to support the validity of its claims. Specifically, the Beneficiary must implement adequate systems that accurately track and maintain data for FCC reporting. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

V-Care is updating the operation system to tag each months re-load of minutes and allow it to be visable to Cellspan in the customer notes section.

FINDING #4: 47 C.F.R. § 54.407(c)(1) – Improper Claims Before Service Activation

CONDITION

AAD selected a non-statistical sample of 68 subscribers and obtained and examined the usage activity reports to determine if subscribers activated their service prior to being claimed in the Lifeline Claim System (LCS). AAD determined that the Beneficiary claimed support for 10 of the 68 sample subscribers prior to the activation of the subscriber's service, indicated by the subscriber having a temporary phone number. Additionally, based on these results, AAD examined the Beneficiary's billing register and identified an additional 201 subscribers who were also claimed prior to the activation. AAD concludes that the Beneficiary claimed support for subscribers who were not eligible to receive support because their service was not activated at the time.

CAUSE

The Beneficiary did not have an adequate procedure in place to ensure subscribers were not claimed in the LCS who have not activated their phone. The Beneficiary informed AAD that it was human error.[13]

EFFECT

AAD calculated the monetary effect for this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 211 subscribers prior to the activation of their service. AAD identified a total of 245 such instances and multiplied them by the Lifeline support amount reimbursed to the Beneficiary ($9.25/$7.25), rounded to the nearest whole dollar. AAD summarized the results below:

[13] Beneficiary response to AIR #26 received February 24, 2023.

Study Area Code	Support Type	Monetary Effect (A)	Overlapping Exceptions (B)	Recommended Recovery (A) - (B)
189033	Lifeline (Non-Tribal)	$1,164	$56	$1,108
209033	Lifeline (Non-Tribal)	$9	$0	$9
409036	Lifeline (Non-Tribal)	$1,101	$65	$1,036
Total		**$2,274**	**$121**	**$2,153**

RECOMMENDATION

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

The Beneficiary must implement procedures to ensure that only subscribers with activated phones are claimed. Specifically, the Beneficiary must implement adequate systems that accurately track usage data for FCC reporting purposes. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

Better execution of procedures of initial phone calls by customers will be monitored by Cellspan.

FINDING #5: 47 C.F.R. § 54.201(b) – Subscribers Outside of Service Area

CONDITION

AAD obtained and examined the list of Lifeline subscribers the Beneficiary claimed for reimbursement through the Lifeline Claims System (LCS) to determine whether the Beneficiary provided services to subscribers who resided in the areas where it was designated as an Eligible Telecommunications Carrier.[14] AAD examined the ETC orders for the three Study Area Codes (SACs) under audit to identify the designated service area. AAD identified a total of nine subscribers outside the designated service area across two of the SACs:[15]

SAC	No. of Affected Subscribers
189033	6
209033	3
Total No. of Affected Subscribers	**9**

[14] 47 C.F.R. § 54.201(b), (d), and 47 C.F.R. § 54.207(a) (2018).
[15] The state orders examined that approved Cellspan Inc for designation as an Eligible Telecommunications Carrier for the limited purpose of offering Lifeline Service to qualified households include the following state's Public Service Commissions: Maryland, ML#133924, TE-10577, October 12, 2011, and West Virginia, Case No. 11-1298-C-PC, December 6, 2011.

Because the Beneficiary claimed nine subscribers in the LCS who resided outside of its designated service area, AAD concludes that these subscribers were not eligible to receive Lifeline Program support. The Beneficiary must not claim subscribers for reimbursement in the LCS in areas where it is not designated as an ETC.

CAUSE

The Beneficiary did not have adequate system controls in place to ensure that it only claimed support for eligible subscribers who resided within its designated service area. The Beneficiary informed AAD that it will add new area code files to restrict any outside designated service areas.[16]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the nine subscribers based on the subscribers' address effective in LCS as of the January 1, 2019. AAD identified a total of 148 instances for subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25), rounded to the nearest whole dollar. AAD summarized the results below:

Study Area Code	Support Type	Monetary Effect (A)	Overlapping Exceptions (B)	Recommended Recovery (A)-(B)
189033	Lifeline (Non-Tribal)	1,147	444	$703
209033	Lifeline (Non-Tribal)	222	102	$120
Total		**$1,369**	**$546**	**$823**

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure that it claims Lifeline Program support only for eligible subscribers who reside within the Beneficiary's designated service area. Specifically, the Beneficiary must develop a process to identify that they only submit claims for Lifeline for subscribers that reside within the Beneficiary's designated service area. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

Cellspan will update V-care with new area code files to restrict any outside designated service areas.

[16] Beneficiary response to AIR #26 received February 24, 2023.

FINDING #6: 47 C.F.R. § 54.410(c)(1)(i) – Inadequate Certification and Eligibility Documentation

CONDITION

AAD obtained and examined certification (Form 5629), recertification (Form 5630), and proof of eligibility documentation for a non-statistical sample of 68 subscribers and a non-statistical sample of 27 subscribers who had the same address as another Lifeline subscriber to determine whether the subscribers accurately completed the certification or recertification forms (forms) and were eligible to receive the Lifeline program support claimed. AAD determined the following errors with either the forms or eligibility documentation as detailed below:

Errors	No. of Affected Forms
Eligibility documentation did not agree to the qualifying government program indicated on the forms[17]	9
Eligibility documentation from a state database check did not contain sufficient details identifying the qualifying Lifeline program[18]	3
Subscriber presented inadequate proof of eligibility documentation[19]	1
Date of Birth (DOB) in NLAD did not match DOB on the subscriber's certification form[20]	1
Total No. of Affected Subscribers	**14**

Because the subscribers did not properly complete the forms or have adequate eligibility documentation, AAD concludes that the 14 subscribers were not eligible to receive the Lifeline support claimed by the Beneficiary.

CAUSE

The Beneficiary did not have adequate procedures in place for reviewing the forms and eligibility documentation. The Beneficiary informed AAD that it was human error.[21]

EFFECT

AAD calculated the monetary effect of this finding by determining the number of instances (months) the Beneficiary claimed Lifeline support for the 14 subscribers from the subscriber's Lifeline start date or recertification due date until December 1, 2019. AAD identified a total of 119 instances for subscribers. AAD multiplied the instances by the Lifeline support amount reimbursed to the Beneficiary ($9.25). AAD summarized the results below:

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[17] 47 C.F.R. § 54.410(c)(1)(i)(B).
[18] 47 C.F.R. § 54.410(c)(1)(i)(A).
[19] 47 C.F.R. § 54.410(c)(ii).
[20] 47 C.F.R. § 54.404(b)(6)
[21] Beneficiary response to AIR #26 received February 24, 2023.

SAC	Support Type	Monetary Effect and Recommended Recovery (A) - (B)
189033	Lifeline (Non-Tribal)	$509
209033	Lifeline (Non-Tribal)	$185
409036	Lifeline (Non-Tribal)	$407
Total		**$1,101**

RECOMMENDATION

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

The Beneficiary must implement policies, procedures, and controls to ensure it obtains appropriate documentation to support an applicant's eligibility and new certification. The Beneficiary must implement procedures and controls to review the documentation and ensure that it complies with Lifeline program rules. In addition, the Beneficiary may learn more about documentation and reporting requirements on USAC's website at https://www.usac.org/about/appeals-audits/beneficiary-and-contributor-audit-program-bcap/common-audit-findings-lifeline-program/.

BENEFICIARY RESPONSE

Will discuss with V-Care to see how the system did not catch these accounts. The validation process we have in place is very strong.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.400(g) (2018)	"Duplicative support" exists when a Lifeline subscriber is receiving two or more Lifeline services concurrently or two or more subscribers in a household are receiving Lifeline services or Tribal Link Up support concurrently.
#1	47 C.F.R. § 54.409(a)(2) (2018)	To constitute a qualifying low-income consumer: (1) The consumer, one or more of the consumer's dependents, or the consumer's household must receive benefits from one of the following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal Public Housing Assistance; or Veterans and Survivors Pension Benefit.
#1	47 C.F.R. § 54.409(c) (2018)	…[I]n order to constitute a qualifying low-income consumer, a consumer must not already be receiving a Lifeline service, and there must not be anyone else in the subscriber's household subscribed to a Lifeline service.
#2	47 C.F.R. § 54.405(e)(4) (2018)	…If a subscriber does not respond to the carrier's notice of impending de-enrollment, the carrier must de-enroll the subscriber from Lifeline within five business days after the expiration of the subscriber's time to respond to the re-certification efforts.
#3	47 C.F.R. § 54.417(a) (2018)	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 §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 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.
#3	47 C.F.R. § 54.403(a)(1) (2018)	The federal Lifeline support amount for all eligible telecommunications carriers shall equal: (1) Basic support amount. Federal Lifeline support in the amount of $9.25 per month will be made available to an eligible telecommunications carrier providing Lifeline service to a qualifying low-income consumer, except as provided in paragraph (a)(2) of this section, if that carrier certifies to the Administrator that it will pass through the full amount of support to the qualifying low-income consumer and that it has received any non-federal regulatory approvals necessary to implement the rate reduction.
#3	47 C.F.R. § 54.404(b)(11) (2018)	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: (11) All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or

		investigations or to the extent required by NLAD processes, which require, *inter alia*, verification of eligibility, identity, address, and age.
#3, #6	47 C.F.R. § 54.410(c)(1)(i)(A)(B) (2018)	**Initial program-based eligibility determination.** (1) Except in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the initial determination of a subscriber's program-based eligibility, when a prospective subscriber seeks to qualify for Lifeline service using the program-based criteria set forth in § 54.409(a)(2) or (b), an eligible telecommunications carrier: (i) Must not seek reimbursement for providing Lifeline to a subscriber unless the carrier has received a certification of eligibility from the subscriber that complies with the requirements set forth in paragraph (d) of this section and has confirmed the subscriber's program-based eligibility using the following procedures: (A) If the eligible telecommunications carrier can determine a prospective subscriber's program-based eligibility for Lifeline by accessing one or more databases containing information regarding enrollment in qualifying assistance programs ("eligibility databases"), the eligible telecommunications carrier must access such eligibility databases to determine whether the prospective subscriber qualifies for Lifeline based on participation in a qualifying assistance program; or (B) If an eligible telecommunications carrier cannot determine a prospective subscriber's program-based eligibility for Lifeline by accessing eligibility databases, the eligible telecommunications carrier must review documentation demonstrating that a prospective subscriber qualifies for Lifeline under the program-based eligibility requirements. Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a notice or letter of participation in a qualifying assistance program, program participation documents, or another official document demonstrating that the prospective subscriber, one or more of the prospective subscriber's dependents or the prospective subscriber's household receives benefits from a qualifying assistance program.
#3	47 C.F.R. § 54.410(f)(1) (2018)	All eligible telecommunications carriers must re-certify all subscribers 12 months after the subscriber's service initiation date and every 12 months thereafter, except for subscribers in states where the National Verifier, state Lifeline administrator, or other state agency is responsible for the annual re-certification of subscribers' Lifeline eligibility.
#4	47 CFR § 54.407(c)(1) (2018)	An eligible telecommunications carrier offering a Lifeline service that does not require the eligible telecommunications carrier to assess and collect a monthly fee from its subscribers: (1) Shall not receive universal service support for a subscriber to such Lifeline service until the subscriber activates the service by whatever means specified by the carrier, such as completing an outbound call…

#5	47 C.F.R. § 54.201(b) (2018)	A state commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (d) of this section as an eligible telecommunications carrier for a service area designated by the state commission.
#5	47 C.F.R. § 54.201(d) (2018)	A common carrier designated as an eligible telecommunications carrier under this section shall be eligible to receive universal service support in accordance with section 254 of the Act and, except as described in paragraph (d)(3) of this section, shall throughout the service area for which the designation is received…
#5	47 C.F.R. § 54.207(a) (2018)	The term *service area* means a geographic area established by a state commission for the purpose of determining universal service obligations and support mechanisms. A service area defines the overall area for which the carrier shall receive support from federal universal service support mechanisms.
#5	Public Service Commission of the State of Maryland, ML#133924, TE-10577, October 12, 2011 Petition of Cellspan Inc. for Designation as an Eligible Telecom Carrier in MD, September 1, 2011.	Approval: The Commission has reviewed the Petition for Designation as an Eligible Telecommunications Carrier in Maryland for the limited purpose of offering Wireless Lifeline and Link-Up Service filed September 1, 2011…the Commission found that designation of the applicant…is in the public interest and granted designation as an Eligible Telecommunications Carrier for the service territory specified in the application. Petition: II. A. Company Overview Cellspan provides prepaid wireless telecommunications services to consumers by using the Sprint Nextel ("Sprint") network on a wholesale basis to offer nationwide service. In addition to using Company-owned facilities to provide service, Cellspan will obtain from Sprint, or an authorized reseller of Sprint, the network infrastructure and wireless transmission facilities to allow the Company to operate as a Mobile Virtual Network Operator ("MVNO").
#5	Public Service Commission of the State of West Virginia, Case No. 11-1298-C-PC, December 6, 2011	Cellspan requested ETC designation throughout the nonrural service areas of Frontier West Virginia Inc., as well as rural areas served by Citizens Telecommunications Company of West Virginia, Armstrong Telephone Company, Hardy Telecommunications, Inc., and West Side Telephone Company. It will offer wireless telephone service through a combination of resale and its own facilities to eligible low income customers and provide a qualifying handset at no cost to customers. Cellspan will employ the Sprint Nextel Network for the resale portion of its offerings.
#6	47 C.F.R. § 54.404(b)(6) (2018)	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.

This concludes the report.