

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
Request for Review of a Decision of the Universal	)	Audit No. HC2022LR0006
Service Administrator by Knology Total	)	
Communications, Inc. or Petition for Waiver	)	
	)	
	)	

**ORDER**

**Adopted: September 10, 2025**

**Released: September 10, 2025**

By the Chief, Wireline Competition Bureau:

**I. INTRODUCTION**

1. In this Order, we deny a request for review from Knology Total Communications, Inc. f/k/a/ Graceba Total Communication (Knology) of the Universal Service Administrative Company's (USAC) audit findings that, among other items, Knology failed to follow certain rules governing our Uniform System of Accounts (USOA).<sup>1</sup> We further deny Knology's alternative request for a waiver of our accounting rules. We therefore direct USAC to recover \$386,035 in Universal Service Fund (USF) high-cost support based on the three audit findings.

**II. BACKGROUND**

2. Knology is a rural, rate-of-return incumbent local exchange carrier headquartered in Ashford, Alabama. During the audit year, 2020, Knology served approximately 894 subscribers through traditional copper and fiber-to-the-home facilities.<sup>2</sup> In 2012, prior to the relevant audit, Knology purchased the study area that was the focus of the audit from Graceba Total Communication,<sup>3</sup> acquiring its assets and property records.<sup>4</sup> According to Knology, the "vast majority" of plant, total plant in service, and cable and wire facilities in the acquired service area existed prior to its purchase of the carrier.<sup>5</sup> During the 2020 USAC audit period, Knology received High-Cost Loop support (HCLS), Connect America Fund (CAF)

<sup>1</sup> Request for Review of a Decision of the Universal Service Administrator or, in the Alternative, Petition for Waiver of Knology Total Communications, WC Docket No. 10-90 (filed Jan. 21, 2025) (Knology Request).

<sup>2</sup> *Id.* at 2.

<sup>3</sup> Knology acquired Graceba's Study Area Code (SAC) 250295 in 2012. *Id.* This SAC was the focus of USAC's audit for the high-cost support subsequently disbursed in 2020. Knology Total Communications, Inc., Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules, USAC Audit No. HC2022LR006, at 3 (Apr. 3, 2024) (attached to Knology Request, Appx. 2) (USAC Audit Report).

<sup>4</sup> Administrator's Decision on High Cost Appeal: Knology Total Communications, Inc., HC2022LR006, Study Area Code (SAC) 250295 at 2 (Nov. 21, 2024) (attached to Knology Request, Appx. 1) (USAC Appeal). Knology was subsequently purchased by WideOpenWest (d.b.a. WOW!) in April 2012. USAC Audit Report at 5.

<sup>5</sup> Knology Request at 2, 5.

Broadband Loop Support (BLS), and CAF Intercarrier Compensation support (ICC) from the high-cost program, totaling \$1.6 million.<sup>6</sup>

3. Incumbent local exchange carriers subject to rate-of-return regulation develop their revenue requirements, used to calculate both rates and high-cost universal service support, in accordance with a four-step process. First, carriers record their costs, including investments and expenses, into various accounts in accordance with the USOA prescribed by Part 32 of the Commission's rules.<sup>7</sup> Second, carriers assign the costs in those accounts to regulated and non-regulated activities in accordance with Part 64 of the Commission's rules to ensure that the costs of non-regulated activities will not be recovered by regulated service rates or through universal service support.<sup>8</sup> Third, carriers separate the regulated costs between the interstate and intrastate jurisdictions, as well as among cost categories, in accordance with the Commission's Part 36 separations rules.<sup>9</sup> Finally, carriers apportion the interstate regulated costs among the interexchange services and rate elements that form the cost basis for their interstate access tariffs pursuant to the Commission's Part 69 rules, as well as for high-cost universal service support pursuant to Part 54.<sup>10</sup>

4. Rate-of-return carriers like Knology are subject to the Commission's Part 32 financial accounting rules for recording costs, investments, and expenses.<sup>11</sup> Section 32.2000(e)(1)-(4) of the Commission's rules requires carriers to establish and maintain basic property records to preserve detailed information for each class of property recorded in several plant accounts comprising its balance sheet.<sup>12</sup> The property records must preserve: the identity, vintage, location and original cost of units of property; original and ongoing transactional data (plant account activity) in terms of such units; and any other specific financial and cost accounting information which is needed to support regulatory, cost, tax, management and other specific accounting information needs and requirements.<sup>13</sup> In addition, the basic property records must be (1) subject to internal accounting controls, (2) auditable, and (3) equal to the total investment reflected in the property control accounts and total cost allocations, and (4) maintained throughout the life of the property.<sup>14</sup> The basic property records must consist of continuing and

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<sup>6</sup> HCLS provides support to rate-of-return carriers that experience high loop-related costs by deducting costs in excess of a specified benchmark from the state jurisdiction and adding them to the interstate jurisdiction. See 47 CFR § 54.1301(a). The CAF BLS mechanism subsidizes carriers with high local loop costs in the interstate jurisdiction for both voice and consumer broadband-only loops. See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3091, para. 5 (2016) (*2016 Rate-of-Return Reform Order*). CAF ICC provides support to the extent otherwise-eligible revenue cannot be recovered through the carrier's Access Recovery Charge. *Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, WC Docket No. 10-90 et al., 26 FCC Rcd 17663, 17760, para. 257 (2011) (*USF/ICC Transformation Order*), *aff'd sub nom. In re: FCC 11-161*, 753 F.3d 1015 (10th Cir. 2014).

<sup>7</sup> 47 CFR Part 32.

<sup>8</sup> 47 CFR § 64.901-64.904.

<sup>9</sup> 47 CFR Part 36.

<sup>10</sup> 47 CFR Parts 54 and 69.

<sup>11</sup> See *Sandwich Isles Communications, Inc.*, WC Docket No. 10-90, Order on Reconsideration, 34 FCC Rcd 577, 583, para. 13 (2019) (*SIC Reconsideration Order*); *Request for Review of a Decision of the Universal Service Administrator by Big Bend Telephone Company, Inc.*, Order, DA 25-489, WC Docket No. 10-90, at 2, para. 3 (WCB June 6, 2025) (*Big Bend Order*).

<sup>12</sup> 47 CFR § 32.2000(e)(1)-(4).

<sup>13</sup> *Id.* § 32.2000(e)(1).

<sup>14</sup> *Id.* § 32.2000(e)(2).

supplemental property records that clearly detail the information needed to meet all of the foregoing requirements.<sup>15</sup>

5. Section 54.320 of the Commission's rules states that eligible telecommunications carriers (ETCs) "authorized to receive universal service high-cost support are subject to random compliance audits and other investigations to ensure compliance with program rules and orders."<sup>16</sup> The rule further requires ETCs to "retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules."<sup>17</sup> Records must be "maintained for at least ten years from the receipt of funding,"<sup>18</sup> and "[a]ll such documents shall be made available upon request to the Commission and any of its Bureaus or Offices, the Administrator, and their respective auditors."<sup>19</sup> As the Commission previously stated, "[t]he burden is on recipients of high-cost funding to retain records sufficient to demonstrate that the funding they receive is consistent with the rules of the high-cost programs."<sup>20</sup>

6. USAC performed an audit of USF high-cost support disbursements to Knology for the year ending December 31, 2020.<sup>21</sup> At the conclusion of its examination, USAC issued its audit report dated April 2, 2024, which included five findings of non-compliance with our rules for the audited period.<sup>22</sup> USAC recommended the recovery of \$386,035 in high-cost support for the relevant audit period and that Knology implement a Corrective Action Plan to improve its documentation and data retention procedures.<sup>23</sup> Of the five audit findings, Knology appealed three to USAC:

- Finding No. 1: Improper Continuing Property Records;
- Finding No. 2: Inadequate Documentation (Payroll Transactions); and
- Finding No. 3: Improper Allocation Methodology.<sup>24</sup>

7. USAC denied Knology's appeal on November 24, 2024.<sup>25</sup> In its decision, USAC determined that "Knology failed to maintain a complete detailed [continuing property records] for cable and wire facility (CWF) equipment, did not provide adequate documentation to support the accuracy of its time entry reporting or payroll expense transactions, and did not use cost-causative factors to allocate corporate expenses."<sup>26</sup>

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<sup>15</sup> *Id.* § 32.2000(e)(3).

<sup>16</sup> *Id.* § 54.320(a).

<sup>17</sup> *Id.* § 54.320(b).

<sup>18</sup> *Id.* Section 54.202(e) of the Commission's rules, adopted in 2007, previously set forth the record retention requirements for carriers participating in the high-cost program until the Commission in the 2011 *USF/ICC Transformation Order* re-designated section 54.202(e) as new section 54.320 and extended the retention requirement from 5 to 10 years. 47 CFR § 54.202(e) (2010); *Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17864, para. 621 (*USF/ICC Transformation Order*). The rule change became effective on May 8, 2012. See FCC, 47 CFR Parts 51 and 54, 77 Fed. Reg. 26987 (May 8, 2012).

<sup>19</sup> 47 CFR § 54.320(b).

<sup>20</sup> See *SIC Reconsideration Order*, 34 FCC Rcd at 597, para. 43.

<sup>21</sup> USAC Audit Report at 1; Knology Request at 2, n.2.

<sup>22</sup> USAC Audit Report at 1.

<sup>23</sup> USAC originally incorrectly calculated the monetary effect of Knology's non-compliance with respect to Audit Finding #1. USAC Audit Report at 3-4, 10. However, USAC revised the monetary effect to correct the error. *Id.*

<sup>24</sup> Knology Request at 1; USAC Appeal at 1.

<sup>25</sup> *Id.*

<sup>26</sup> USAC Appeal at 8.

8. Knology timely filed a request seeking review of USAC's denial with the Wireline Competition Bureau (Bureau) pursuant to sections 54.719, 54.722, and 1.3 of the Commission's rules.<sup>27</sup> Knology seeks the Bureau's review of the same three audit findings it appealed to USAC, raising the same arguments and noting USAC's "rigid analysis calling for recovery of support for violations of the letter of the rules even where Commission precedent (and other USAC audits) have focused on ensuring that a high-cost support recipient's records provide the information necessary to validate the recipient's cost reporting[.]"<sup>28</sup> Alternatively, Knology petitions for a waiver of the Commission's rules "to ensure more effective implementation of overall policy, promote equity, and avoid the hardship that would be caused by the loss of support[.]"<sup>29</sup> Requests for review of USAC decisions are subject to *de novo* review by the Bureau.<sup>30</sup>

### III. DISCUSSION

9. Based on our *de novo* review, the Bureau finds no error in the three audit findings issued by USAC for which Knology seeks review or in USAC's conclusions regarding the violations of our rules. Commission precedent has long recognized that recipients of high-cost support bear the burden to retain records sufficient to demonstrate that the funding they receive is consistent with the rules of the high-cost programs.<sup>31</sup> The records Knology presented to USAC fall short of those required by the Commission's rules to ensure compliance and to support the disbursement of high-cost support in 2020. For the reasons discussed below, we find that Knology failed to adequately maintain and present the continuing property records required by our accounting rules, notwithstanding the limited data it provided to USAC. We further find that Knology failed to maintain and present records for the allocation of payroll expenses. We also find that Knology misinterpreted and thus misapplied the hierarchy of principles for the allocation of common costs. Lastly, we do not find good cause to waive our accounting rules because no special circumstances justify deviation from our rules in this case.

#### A. Knology Failed to Maintain Continuing Property Records

10. We affirm USAC's finding regarding Knology's failure to maintain and present continuing property records for CWF equipment. We agree with USAC's audit finding and determination on appeal that Knology's asset roll-forward schedules for 2017, 2018, and 2019 are insufficient records to support its CWF asset costs.<sup>32</sup> Thus, Knology was unable to support \$8,024,180 of CWF equipment reported, and we agree with USAC's audit finding for the recovery of high cost support in the amount of \$307,419.<sup>33</sup>

11. In its petition, Knology argues that providing an asset roll forward of all CWF fulfills the intent of the Commission's rules by substantiating the existence and value of CWF<sup>34</sup> and that the proposed recovery amount is inconsistent with our rules.<sup>35</sup> The Bureau disagrees that the asset roll

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<sup>27</sup> Knology Request at 1.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* at 16.

<sup>30</sup> 47 CFR § 54.723(a).

<sup>31</sup> See, e.g., *SIC Reconsideration Order*, 34 FCC Rcd at 598, para. 43 ("The burden is on recipients of high-cost funding to retain records sufficient to demonstrate that the funding they receive is consistent with the rules of the high-cost programs.") (citations omitted).

<sup>32</sup> USAC Appeal at 6.

<sup>33</sup> USAC Audit Report at 3, 10.

<sup>34</sup> Knology Request at 5-8. An asset roll forward generally refers to an accounting schedule that supports changes in an asset account over a period of time, such as a month, quarter, or year.

<sup>35</sup> *Id.* at 8-11.

forward fulfills the requirements of section 32.2000(e).<sup>36</sup> Despite Knology's assertions to the contrary, an asset roll forward, in and of itself, does not provide the information required by section 32.2000(e) to clearly detail all the information needed to support the regulatory, cost, tax, management, and accounting information. We agree with USAC that the asset roll forward "grouped CWF assets by account number and did not provide any information regarding the individual assets within each account."<sup>37</sup> Specifically, Knology did not provide underlying information forming the basis of its asset roll forward describing the individual units, their physical locations, original cost, and costs associated with their installation as required by section 32.2000(e).<sup>38</sup> While Knology argues that the asset roll forward provided information for each class of property, it nevertheless acknowledges that its "inherited property records revealed no additional information for the in-service assets, including in-service dates."<sup>39</sup>

12. We are further unpersuaded by Knology's argument that USAC could have selected records of new additions for certain years during a "virtual site visit" on November 14, 2023, covering central office equipment (COE), but failed to do so.<sup>40</sup> USAC requested continuing property records as part of the audit on at least six separate occasions, and Knology failed to provide the continuing property records for CWF required by our rules, instead relying solely on its asset roll forward schedule.<sup>41</sup> Knology cannot shift its own obligations under our accounting rules to complain that USAC failed to request records during a virtual site visit or to request an actual field visit.<sup>42</sup>

13. Knology further argues that even if the Bureau concludes that it failed to maintain records of its CWF in accordance with our rules, USAC's recommendation to disallow Knology's CWF equipment in its entirety for the review period is inconsistent with the Commission's rules and precedent.<sup>43</sup> In support, Knology argues that USAC's audit finding conflicts with other similar audits in which carriers failed to maintain continuing property records but USAC found "no monetary effect" for the violations because it was able to verify key facts about the assets through the audit process.<sup>44</sup>

14. We reject these arguments and conclude that the full recovery of the high-cost support amount resulting from this audit finding is warranted and consistent with past precedent based on Knology's failure to substantiate costs for which it sought high-cost support due to inadequate continuing property records. The Commission has long recognized that "funds disbursed from the high-cost . . . support mechanism[] in violation of a Commission rule that implements the statute or a substantive program goal

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<sup>36</sup> 47 CFR § 32.2000(e).

<sup>37</sup> USAC Audit Report at 10.

<sup>38</sup> USAC Appeal at 6; USAC Audit Report at 10.

<sup>39</sup> Knology Request at 5. In its appeal, Knology apparently suggests that it should not be held responsible, and have its high-cost support reduced, for the lack of records because it presented all records it possessed after acquiring Gracebo in 2012. *See id.* at 5, 8. We disagree. Our rules and precedent make clear that following a corporate merger, consolidation, or acquisition, a surviving corporate entity must comply with all program rules and requirements. In this regard, we expect a carrier, such as Knology, that acquires and assumes the obligations of an existing eligible telecommunications carrier that receives USF support to conduct all necessary due diligence commensurate with such a transaction, including, for instance, compliance with the receipt of high-cost support and program rules.

<sup>40</sup> *Id.* at 6-7. The Bureau has no information regarding the November 14, 2023, virtual site review except for the scant description in the Request for Review. *Id.* at 6-7, 10.

<sup>41</sup> USAC Audit Report at 6, n.8.

<sup>42</sup> *See* 47 CFR § 54.320 ("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."); *see also supra* note 20.

<sup>43</sup> Knology Request at 8.

<sup>44</sup> *Id.* at 10.

should be recovered.”<sup>45</sup> In this regard, we highlight that a support recipient bears the burden of demonstrating compliance with the Commission’s rules to justify the high-cost support it sought and received.<sup>46</sup> Although Knology repeatedly argues to the contrary,<sup>47</sup> we find that full recovery of the amount in this instance is consistent with our precedent and warranted due to the company’s failure to substantiate its receipt of high-cost support with records required by the Commission’s rules.<sup>48</sup> For example, in *Nemont*, the Bureau affirmed the disallowance of the entire support amount associated with the audit findings due to a lack of supporting documentation for the receipt of high-cost support from a rate of return carrier, stating that “[m]aintaining appropriate documentation to support information submitted in cost studies used to determine universal service support is critical to the Commission’s ability to ensure that high-cost support is provided appropriately.”<sup>49</sup> Recently, we likewise upheld recovery of the full support amount related to a rate-of-return carrier’s inability to provide documentation for its payroll expense allocations to substantiate the support it received, noting that “funds disbursed from the high-cost . . . support mechanism[] in violation of a Commission rule that implements the statute or a substantive program goal should be recovered.”<sup>50</sup>

15. Similarly in the instant appeal, Knology failed to comply with the Commission’s rules by not maintaining and making available, as required, documentation supporting CWF asset costs for which it sought and received high-cost support.<sup>51</sup> Without accurate data and documentation to substantiate these costs, USAC was unable to determine whether Knology received the proper amount of universal service support related to these costs and, thus, unable to guard against waste, fraud, and abuse of the USF. We disagree with Knology’s contention that an indeterminate amount of support is warranted rather than the disallowance of support for its CWF during the audit period.<sup>52</sup> Knology is attempting to shift its responsibility for properly documenting its costs to the auditor. As our precedent makes clear, it is “not the responsibility of the auditors or within the scope of [an] audit for the auditors to recalculate, reconstruct, or correct [a carrier’s] records.”<sup>53</sup> Accordingly, we agree with USAC’s disallowance of Knology’s CWF in its entirety due to insufficient documentation and the full recovery of associated support based on this audit finding.

16. We further find that Knology’s reliance on unrelated audits by USAC of other incumbent local exchange carriers (ILECs) that failed to maintain detailed property records is misplaced. In one audit case, the ILEC similarly failed to follow our continuing property records; however, the ILEC provided USAC with other evidence enabling USAC to properly calculate depreciation expense and the associated depreciation for the High Cost program.<sup>54</sup> In contrast, Knology’s submission of asset roll

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<sup>45</sup> *Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight et al.*, Report and Order, WC Docket No. 05-195 et al., 22 FCC Rcd 16372, 16386, para. 30 (2007).

<sup>46</sup> 47 CFR § 54.320(b).

<sup>47</sup> Knology Request at 8-11; USAC Appeal at 4-5; USAC Audit Report at 8.

<sup>48</sup> See, e.g., *Request for Review of a Decision of the Universal Service Administrator by Nemont Telephone Cooperative, Inc.*, Order, WC Docket No. 08-71, 29 FCC Rcd 11780, 11782 n.16 (WCB 2014) (noting that the full recovery of support for entities that failed to maintain documentation as required by the Commission’s E-rate program is warranted) (*Nemont*).

<sup>49</sup> *Nemont*, 29 FCC Rcd at 11783.

<sup>50</sup> *Big Bend Order* at 11, para. 31.

<sup>51</sup> See 47 CFR § 54.320(b).

<sup>52</sup> Knology Request at 7.

<sup>53</sup> *Nemont*, 29 FCC Rcd at 11784, para. 13.

<sup>54</sup> Eagle Telephone System, Inc., *Limited Review Performance Audit on Compliance with the Federal Universal Service Fund High Cost Support Mechanism Rules*, Audit No. HC2022LR007, at 10 (Jan. 26, 2024) (“AAD was able to gain comfort that the assets were in service by reviewing the Beneficiary’s provided maps and staking sheets (continued....)”).

forwards documentation did not provide the detailed information required by our rules governing continuing property records to substantiate the support it sought and received.<sup>55</sup> Moreover, Knology's argument that it provided to USAC "visual documentation" of COE during the "Virtual Site Visit" is of little value given its failure to provide the required records for CWF.<sup>56</sup> We fail to see how evidence of its COE adequately fulfilled Knology's requirement to maintain continuing property records for CWF, as USAC found in the present audit.

17. Similarly, Knology's reliance on other unrelated audits for its contention that the removal of unsupported costs, such as its CWF costs, "has no basis in the Commission's rules[]" is misplaced.<sup>57</sup> The other audit inquiries cited by Knology, concerning other incumbent local exchange carriers that failed to maintain continuing property records, do not establish precedent for the proposition that the full recovery of support is unjustified. Importantly, as Knology itself recognizes in its Request for Review,<sup>58</sup> in the prior audits, which occurred from 1998 to 1999, the Commission subsequently declined to further investigate the carriers that failed to follow our recordkeeping requirements due to subsequent reforms of local and long distance telecommunications markets and setting of interstate access charges.<sup>59</sup> We disagree that the audit inquiries stand for the proposition that USAC may not recommend the removal of unsupported costs and that the Commission cannot recover associated universal service support based on its finding that a carrier failed to properly maintain continuing property records in accordance with Section 32.2000(e)(1)-(4).<sup>60</sup> We find for the reasons discussed above that the full removal of unsupported costs is consistent with Commission precedent.

#### **B. Knology Did Not Maintain Adequate Documentation to Support its Payroll Allocation**

18. We likewise affirm USAC's finding that Knology failed to maintain and provide adequate documentation to support the allocation of payroll expenses.<sup>61</sup> USAC was unable to confirm the actual payroll expense amounts Knology should have reported and appropriately deducted the payroll expense from the balances reported by Knology. Without the required records, we agree with USAC's recommendation for the recovery of legacy support in the amount of \$153,197 during the disbursement period.

19. As part of the audit, USAC requested documentation from Knology, including payroll distribution reports and timesheets for certain employees, to determine whether it accurately reported its

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(i.e., hand-drawn maps detailing asset locations) against Google Earth photos that outlined the service area.") (Eagle Telephone Audit), available in USAC, *High Cost and Low Income Committee Audit Reports Briefing Book* at 62 (April 29, 2024), <https://www.usac.org/wp-content/uploads/about/documents/leadership/materials/hcli/2024/2024-04-29-HCLI-Audit-Reports-Briefing-Book-Public.pdf>.

<sup>55</sup> 47 CFR § 32.2000(e).

<sup>56</sup> See Knology Request at 6, 10. We note that there is no evidence or description in the record, i.e., the Knology Request, USAC Appeal, and USAC Audit Report, of any such documentation to consider in our review regarding unsupported CWF for the recovery of support.

<sup>57</sup> *Id.* at 9 (citing, among others, *Ameritech Corp. Tel. Op. Cos. Continuing Property Records Audit, et al.*, Notice of Inquiry, 4 FCC Rcd 7019, 7021 (1999)).

<sup>58</sup> *Knology Request* at 9-10, n.15.

<sup>59</sup> 1998 Biennial Regulatory Review -- Review of Depreciation Requirements for Incumbent Local Exchange Carriers, Second Report and Order and Order, 16 FCC Rcd 4083, 4091, paras. 12-13 (2000).

<sup>60</sup> 47 CFR § 32.2000(e)(1)-(4).

<sup>61</sup> USAC Appeal at 6-7; USAC Audit Order at 10-13.

cost study balances.<sup>62</sup> Knology provided some documentation for employees for the relevant time period that USAC selected.<sup>63</sup> However, USAC found that Knology “did not provide adequate documentation to support the accuracy of its time entry reporting or payroll expense transactions.”<sup>64</sup> According to USAC, Knology provided employee listings that included names and positions but no other supporting documentation to demonstrate whether the payroll expenses were based on direct labor hours or an allocation supported by cost-causative factors.<sup>65</sup> USAC concluded that Knology failed to comply with our document retention rules, and therefore, its payroll balances reported for high-cost purposes were not adequately substantiated.<sup>66</sup> USAC recommended the deduction of the unsubstantiated payroll expense and related benefit cost and payroll tax from amounts reported in accounts 6232, 6423, and 6623 for Knology’s high cost filings.<sup>67</sup>

20. Knology, however, contends that its payroll records were maintained consistent with Generally Accepted Accounting Principles (GAAP) and “provided meaningful support for [its] payroll expenses as reported for USF purposes[.]”<sup>68</sup> Based on its records and production to USAC, Knology argues it “substantiated each employee inquiry” for the audit and that USAC incorrectly indicated that Knology “failed to respond” to the request for payroll records.<sup>69</sup> Knology further contends that USAC’s removal of all payroll expenses is inconsistent with section 64.901(b)(3)(ii) and that it should be permitted to allocate payroll expenses based on a general allocator calculated from its ILEC and CLEC data using a ratio of all expenses directly assigned or attributed to its regulated ILEC and nonregulated CLEC pursuant to section 64.901(b)(3)(iii).<sup>70</sup>

21. Based on our de novo review of the record, we find that Knology failed to maintain and provide adequate payroll records to substantiate its cost allocation.<sup>71</sup> While Knology argues that it provided USAC with all payroll records in its possession for the selected employees,<sup>72</sup> the mere act of producing a spreadsheet of payroll records does not, in and of itself, fulfill its obligation to substantiate its allocation based on direct hours or cost causative factors as required by section 64.901(b)(3).<sup>73</sup> USAC did not find that Knology failed to produce payroll records, but rather, it was unable to verify the accuracy or reasonableness of the cost allocation based on the payroll records Knology did provide.<sup>74</sup> Based on our review of the payroll records, we agree with USAC that the spreadsheet was not adequate “to support the accuracy of its time entry reporting or payroll expense transactions[.]” and that Knology’s payroll distribution report did not support its payroll allocation methodology.<sup>75</sup> Even assuming that the spreadsheet is accurate, we find that the information provided on the spreadsheet did not allow us to

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<sup>62</sup> USAC Audit Report at 11.

<sup>63</sup> Knology Request at 11; USAC Audit Report at 11, 12.

<sup>64</sup> USAC Audit Report at 11.

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*; 47 CFR § 32.2(a)-(b).

<sup>67</sup> Knology Review at 12; USAC Audit Report at 12-13.

<sup>68</sup> Knology Review at 11; USAC Audit Report at 12.

<sup>69</sup> Knology Review at 12; USAC Audit Report at 12.

<sup>70</sup> Knology Review at 12-14.

<sup>71</sup> USAC Appeal at 6-7; USAC Audit Report at 11.

<sup>72</sup> Knology Request at 11-12; USAC Audit Report at 12.

<sup>73</sup> 47 CFR § 54.320(b).

<sup>74</sup> USAC Audit Report at 10-13.

<sup>75</sup> *Id.* at 13.



allocate expenses to the regulated and unregulated entities. Thus, like USAC, we are unable to determine or corroborate the actual payroll expense amounts Knology should have reported and find that Knology was not in compliance with sections 54.320(b), 32.12, and 64.901(b)(3) of the Commission's rules.<sup>76</sup>

22. As we discussed above concerning Knology's failure to follow our rules to provide continuing property records for CWF, we also disagree with Knology that the total recovery of \$153,197 in high-cost support based on its noncompliance is unwarranted and inconsistent with Commission precedent.<sup>77</sup> Knology failed to comply with the Commission's rules by not having, as required, supporting documentation available to USAC for its payroll expense allocations of its employees.<sup>78</sup> As a result, USAC was unable to determine whether Knology received the proper amount of universal service support related to these payroll expenses. Knology contends that there may be some indeterminate but proper amount of "personnel expense for regulated assets," but, as we explained above, Knology cannot shift its responsibilities onto USAC to arbitrarily determine what portion of payroll was recoverable and what portion should be allocated to its unregulated business in light of failure to maintain and provide adequate documentation.<sup>79</sup> We find that the full recovery of the support amount is consistent with our precedent and warranted in this case due to the lack of documentation that substantiates the allocation of expenses from which it received high-cost support.<sup>80</sup> Therefore, we agree with USAC's disallowance of Knology's payroll expense in its entirety due to insufficient documentation.

23. Knology further argues that even if the Commission concludes that USAC did not err in not accepting Knology's allocator, USAC should have followed the "hierarchy of principles" under section 64.901(b)(3) to allocate common costs based on a general allocator.<sup>81</sup> In addition to the Commission's Part 32 financial accounting rules for recording costs, investments and expenses,<sup>82</sup> section 64.901(b)(3) requires that common costs be grouped into homogeneous cost categories based on the direct analysis of the origin of costs themselves.<sup>83</sup> If a carrier cannot allocate common cost categories based on direct analysis, then it must allocate common cost categories using an indirect, cost-causative linkage to another cost category for which a direct assignment or allocation is available.<sup>84</sup> If no adequate direct or indirect measure can be devised, a carrier must allocate the cost category using "a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities."<sup>85</sup>

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<sup>76</sup> 47 CFR §§ 54.320(b), 32.12, and 64.901(b)(3); USAC Audit Report at 13.

<sup>77</sup> See *Comprehensive Review of the Universal Service Fund Management, Administration, and Oversight et al.*, Report and Order, 22 FCC Rcd 16372, 16386, para. 30 (2007).

<sup>78</sup> USAC Appeal 6-7 (indicating that Knology "did not provide a payroll distribution report to support their payroll allocation methodology" and did not "provide documentation to substantiate its time entry reporting or payroll expense transactions").

<sup>79</sup> See 47 CFR § 54.320.

<sup>80</sup> See *Nemont Order*, 29 FCC Rcd at 11782, n.16 (noting that the full recovery of support for entities that failed to maintain documentation as required by the Commission's E-rate program is warranted).

<sup>81</sup> Knology Request at 12-14.

<sup>82</sup> 47 CFR § 32.2(a)-(b).

<sup>83</sup> *Id.* § 64.901(b)(3).

<sup>84</sup> *Id.* § 64.901(b)(3)(i), (ii).

<sup>85</sup> *Id.* § 64.901(b)(3)(iii); *In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities. Amendment of Part 31, the Uniform System of Accounts for Class A and Class B Telephone Companies, to provide for nonregulated activities and to provide for transactions between telephone companies and their affiliates*, Report and Order, 2 FCC Rcd 1298, 1317, para. 152 (1987) (adopting hierarchy of principles for the allocation of costs "that dedicated costs should be directly assigned; that common costs should be allocated based

(continued....)

24. Knology asserts that under this hierarchy, in a case such as this where USAC does not accept its allocator, USAC should have required it to allocate costs based on a general allocator.<sup>86</sup> Under such a reading, a carrier could disregard our requirement to maintain documentation for determining direct or cost-causative allocation of costs where a general allocator could be more advantageous, effectively rendering extraneous the hierarchy to first directly assign costs and second allocate based on cost-causative linkage. We find such an interpretation of section 64.901(b)(3) to be unreasonable in light of the rule's plain language and history,<sup>87</sup> and decline to apply the general allocator under the present circumstances.

25. In this case, Knology was not able to apply the hierarchy of principles to directly analyze the origin of its payroll costs or use indirect, cost-causative linkage because, as discussed above, Knology failed to maintain the records required to substantiate its payroll allocation in violation of our rules.<sup>88</sup> If Knology maintained the required payroll records and applied the hierarchy of principles pursuant to section 64.901(b)(3), USAC would have been capable of accurately determining the correct separation and allocation of payroll expenses by direct analysis, indirect, cost-causative linkage, or application of a general allocator.<sup>89</sup> We find it unreasonable to apply a general allocator to Knology's payroll transactions in order to calculate high-cost support in light of its failure to maintain adequate documentation. Here, Knology did not maintain or present the required documentation to USAC, and therefore, USAC was unable to verify the accuracy of its records nor substantiate the appropriate separation method under section 64.901(b). Without the required records, Knology cannot simply require USAC to assume the application of a general allocator under section 64.901(b)(3)(iii) to substantiate high-cost support.<sup>90</sup> The purpose of the Commission's cost allocation rules is to protect ratepayers from bearing the costs and risks of nonregulated activities,<sup>91</sup> and it is particularly true that ratepayers should not bear the costs when a carrier's own violations of the Commission's rules prevented USAC from correctly applying our cost assignment rules. We therefore direct USAC to proceed with the recovery of support related to Knology's non-compliance with the Commission's rules for inadequate documentation of payroll transactions.

**C. Knology Did Not Properly Calculate a General Allocator Ratio in Accordance with Section 64.901(b)(3)(iii)**

26. As part of the audit and pursuant to section 64.901(b)(3), USAC reviewed Knology's affiliate transactions for administrative charges and common expenses to determine how it separated costs between regulated and nonregulated affiliates.<sup>92</sup> In the audit report, USAC found that these common

(Continued from previous page) \_\_\_\_\_

upon a direct measure of relative use if possible, otherwise on an indirect measure of use; and that if no adequate direct or indirect measure could be devised, then a general allocator should be used") (*Separations Order*).

<sup>86</sup> Knology Request at 13.

<sup>87</sup> *Separations Order*, 2 FCC Rcd at 1317, paras. 148, 152 (providing that cost causational attribution factors will be used whenever possible and remaining costs apportioned on the basis of a general allocator).

<sup>88</sup> 47 CFR §§ 54.320(b), 32.12, 64.901(b)(3).

<sup>89</sup> 47 CFR § 64.901(b)(3); *Separations Order*, 2 FCC Rcd at 1317, paras. 148, 152.

<sup>90</sup> *Id.*

<sup>91</sup> See *Allband Communications Cooperative Petition for Waiver of Certain High-Cost Universal Service Rules*, Order and Order on Review, 31 FCC Rcd 8454, 8457, para. 9 (2016) (quoting *Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services*, CC Docket No. 96-112, 11 FCC Rcd 17211, 17216, para. 9 (1996) (internal quotation marks omitted)) (*Allband*).

<sup>92</sup> USAC Audit Report at 13-15; Knology Request at 14. In relation to the other audit findings, the overall monetary effect on high-cost support related to this finding of an improper allocation of administrative and management costs by Knology is zero dollars.

costs were allocated to regulated and nonregulated “based on an average of revenue and the number of Incumbent Local Exchange Carrier (ILEC) Markets in the region, which are not cost-causative factors.”<sup>93</sup>

27. Knology acknowledges in its Request for Review that pursuant to section 64.903(b)(3)(ii), it “allocate[d] indirect costs to the affiliates based on an average of revenue and [m]arket locations.”<sup>94</sup> In other words, “[Knology] uses data on both the number of locations served and the revenue generated by the regulated and unregulated affiliates to allocate administrative expenses and common costs between [the affiliates].”<sup>95</sup> Knology contends that USAC erred in its analysis of these indirect, common costs between regulated and unregulated affiliates.<sup>96</sup> First, Knology contends that USAC incorrectly concluded that administrative and management costs are not cost-causative.<sup>97</sup> Second, Knology argues that even if such costs are not cost-causative, USAC must apply the general allocator under section 64.901(b)(3)(iii).<sup>98</sup> Knology’s reading and argument for the application of section 64.901(b)(3) are incorrect.

28. The Commission explained that under the cost allocation hierarchy, “. . . all costs with either a direct or an indirect causal link to either regulated or nonregulated activities will be directly assigned to the appropriate activity. The remaining costs will then be apportioned between the regulated and nonregulated activities. Cost causational attribution factors will be used whenever possible, and the remaining costs will be apportioned on the basis of a general allocator.”<sup>99</sup> In this regard, “. . . common costs should be allocated based upon a direct measure of relative use if possible, otherwise on an indirect measure of use[.]”<sup>100</sup>

29. We find that Knology improperly allocated administrative and management costs under section 64.901(b)(3). In this instance, we have no evidence in the record to determine that the general costs for “administrative expenses and management costs” were assigned by an indirect, cost-causative linkage to a cost category based on analysis of the costs origin as required by section 64.901(b)(3)(ii).<sup>101</sup> We are not persuaded by Knology’s contention that that market locations and relative revenues are cost-causative simply because they “bear directly” on administrative costs.<sup>102</sup> While in the context of calculating a general allocator ratio under section 64.901(b)(3)(iii), we nevertheless find the Commission’s observation that revenues are not cost-causative instructive here: “revenues measure only the ability of an activity to bear costs, and not the amount of resources used by the activity.”<sup>103</sup> We find that Knology’s allocation of common costs based on revenues and market locations is not cost-causative and not in accordance with our rule requiring cost-causative linkage to another cost category, or group of cost categories, for which a direct assignment or allocation is available under section 64.901(b)(3)(ii). In making this determination, we continue to ensure that common costs for nonregulated activities are not

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<sup>93</sup> USAC Audit Report at 13.

<sup>94</sup> Knology Request at 14.

<sup>95</sup> *Id.*

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

<sup>98</sup> *Id.* at 15.

<sup>99</sup> *Separations Order*, 2 FCC Rcd at 1317, para. 148.

<sup>100</sup> *Id.* at 1317, para. 152.

<sup>101</sup> See 47 CFR § 64.901(b)(3).

<sup>102</sup> See Knology Request at 14-15.

<sup>103</sup> *In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities. Amendment of Part 31, the Uniform System of Accounts for Class A and Class B Telephone Companies, to provide for nonregulated activities and to provide for transactions between telephone companies and their affiliates*, Notice of Proposed Rulemaking, 104 F.C.C.2d 59, 81-82, para. 47 (1986) (*Separations NPRM*).

subsidized by regulated affiliates, and ultimately the USF. Thus, based on the record, we find that USAC did not err in concluding that Knology's application of revenues in determining the allocation of common costs pursuant to section 64.901(b)(3)(ii) was incorrect.<sup>104</sup>

30. Knology further argues that USAC should have applied the general allocator under section 64.901(b)(3)(iii) for the allocation of the administrative and management costs. At the outset, we note that during the audit and the direct appeal to USAC, Knology appeared to argue for the allocation of common costs using a general allocator under section 64.901(b)(3)(iii) based on its ratio that was calculated using revenues and market locations.<sup>105</sup> In the present appeal, however, Knology now argues that the Commission should "direct USAC to apply its general allocator of 64 percent to allocate the expenses [for administrative and management costs]."<sup>106</sup> According to Knology, the 64 percent was calculated from its "ILEC and CLEC data using the ratio of all expenses directly assigned or attributed to its regulated ILEC and nonregulated CLEC."<sup>107</sup>

31. Assuming that Knology's common costs could not be directly or indirectly assigned after a thorough audit review of documentation in accordance with the cost allocation hierarchy, section 64.901(b)(3)(iii) provides that a cost category shall be allocated using a general allocator "computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities."<sup>108</sup> To the extent Knology seeks to apply a ratio that is derived based on revenues as noted by USAC in the audit and USAC appeal, such a ratio would be improper under section 64.901(b)(3)(iii) to allocate its costs for administrative charges and common expenses.<sup>109</sup> As Knology recognizes, that section specifically states that a "general allocator [is] computed by using the ratio of all *expenses* directly assigned or attributed to regulated and nonregulated activities."<sup>110</sup> As the rule unambiguously states, the general allocator is to be determined based on a ratio of expenses, not revenues.<sup>111</sup> Moreover, the Commission expressly excluded a carrier's revenues as a factor when proposing and adopting a general allocator for common costs in order to prevent subsidization of nonregulated activities by regulated operations.<sup>112</sup> Because the record is unclear as to whether the general allocator ratio of 64 percent is

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<sup>104</sup> USAC and Knology agree that the administrative and management costs were allocated to the regulated and nonregulated affiliates using a ratio based on revenues and market locations. Knology Request at 14; USAC Audit Report at 13-15.

<sup>105</sup> USAC Audit Report at 15 ("Per section 64.901(b)(3)(iii), it is also appropriate to allocate common costs 'based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities....The approach used by [the] Beneficiary is not inconsistent with this requirement."); USAC Appeal at 7-8 ("[USAC] does not have the authority to infer the appropriateness of allocating common costs based on a general allocator that is derived from revenues.")

<sup>106</sup> Knology Request at 15.

<sup>107</sup> *Id.* at 13, n.25.

<sup>108</sup> 47 CFR § 64.901(b)(3)(iii).

<sup>109</sup> *Id.*

<sup>110</sup> *Id.* (emphasis added).

<sup>111</sup> *Id.*

<sup>112</sup> *Separations NPRM*, 104 F.C.C.2d at 81-82, para. 47 ("We do not include revenues because revenues measure only the ability of an activity to bear costs, and not the amount of resources used by the activity. We see use of revenues as a factor in allocating telephone company common costs as promoting subsidization by established regulated operations of new nonregulated activities, which may require much input of resources before producing any revenues at all."); *Separations Order*, 2 FCC Rcd at 1318, para. 160 ("We will not accept the [commenter's] argument that revenues be included as a factor in computing the general allocator. [The commenter] has not provided any argument to controvert the NPRM's argument that 'revenues measure only the ability of an activity to bear costs, and not the amount of resources used by the activity.'")

calculated using revenues or whether Knology provided the necessary documentation for USAC's review as part of the audit, we find it improper to apply the general allocator for the allocation of common expenses and administrative charges in contravention of section 64.901(b)(3)(iii) following the conclusion of the audit and USAC appeal.

**D. Knology Has Not Demonstrated Good Cause Required for a Waiver of the Commission's Rules**

32. Knology argues alternatively that, to the extent the Commission concludes that it has not substantially complied with its requirements, the Commission should "waive its rules to ensure Knology does not lose its high-cost support."<sup>113</sup> Knology argues that a waiver is appropriate in this case because despite the lack of required documentation, USAC is able "to confirm that Knology's equipment and expenses are genuine and its costs are reasonably allocated[]" and the waiver would "ensure more effective implementation of overall policy, promote equity, and avoid the hardship that would be caused by the loss of support to a rural ILEC."<sup>114</sup>

33. Generally, the Commission's rules may be waived for good cause shown.<sup>115</sup> Waiver of the Commission's rules is appropriate only if both: (1) special circumstances warrant a deviation from the general rule, and (2) such deviation will serve the public interest.<sup>116</sup> We do not find good cause justifying a waiver here. We do not agree that a financial hardship, if any, from the loss of high-cost support as a result of violating our accounting rules constitutes special circumstances for a waiver of our accounting rules. The fact that a provider may be harmed by not receiving high-cost support it was not able to fully substantiate is not unique to Knology and, thus, does not constitute special circumstances. Otherwise, a waiver would always be justified in the context of USF support, inconsistent with the FCC's waiver rules. With regard to the public interest, we note the purpose of our cost allocation rules is "to protect ratepayers from bearing the costs and risks of nonregulated activities" and "to deter unreasonable cost shifting both from cost misallocations of joint and common costs and from affiliate transactions."<sup>117</sup> In this case, a waiver of our accounting rules that would permit Knology to retain high-cost support that USAC cannot verify as accurate and reasonable due to a lack of documentation and the improper allocation methodology directly contravenes the significant public interest of protecting ratepayers. The precedents cited by Knology are not persuasive.<sup>118</sup> In those cited cases, the Bureau granted waivers to incumbent local exchange carriers that failed to timely file certain data to receive local switching support based on finding special circumstances for each of the late filings and that the public interest would be served due to the impacts to ensure consumers have access to just, reasonable and affordable rates from the loss of local switching support.<sup>119</sup> In contrast, as explained above, we do not find special circumstances based on any hardship resulting from the loss of support and the significant public interest in protecting taxpayers

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<sup>113</sup> Knology Petition at 16.

<sup>114</sup> *Id.*

<sup>115</sup> 47 CFR § 1.3.

<sup>116</sup> See *Northeast Cellular Tel. Co. v. FCC*, 897 F.2d 1164, 1166 (D.C. Cir. 1990) (citing *WAIT Radio v. FCC*, 418 F.2d 1153, 1157-59 (D.C. Cir. 1969), *cert. denied*, 93 S.Ct. 461 (1972)).

<sup>117</sup> *Allband*, 31 FCC Rcd at 8457, para. 8.

<sup>118</sup> Knology Request at 16-17 & n.35.

<sup>119</sup> *Federal-State Joint Board on Universal Service; Smithville Telephone Company, Inc. Petition for Waiver of Section 54.301 Local Switching Support Data Submission Reporting Date for an Average Schedule Company*, Order, 19 FCC Rcd 8891, 8892-93, para. 5 (WCB 2004) (finding special circumstances due to the death of the provider's president one month before the filing deadline); *Federal-State Joint Board on Universal Service; Alliance Communications Cooperative, Inc. and Hills Telephone Company, Inc., et al.*, Order, 20 FCC Rcd 18250, 18253, para. 8 (WCB 2005) (finding that the public interest in ensuring access to service at just, reasonable, and affordable rates in the local community).

from subsidizing costs for nonregulated activities. Therefore, we find that Knology has not demonstrated good cause to justify a waiver of our rules.

#### IV. ORDERING CLAUSES

34. ACCORDINGLY, IT IS ORDERED that, pursuant to the authority contained in sections 1-4 and 254 of the Communications Act, 47 U.S.C. §§ 151-154, and 254, and pursuant to sections 0.91, 0.291, and 54.722 of the Commission's rules, 47 CFR §§ 0.91, 0.291, and 54.722, the request for review filed by Knology Total Communications, Inc. IS DENIED.

35. IT IS FURTHER ORDERED that pursuant to section 1.3 of the Commission's rules, 47 CFR § 1.3, Knology Total Communications, Inc.'s Petition for Waiver is DENIED as described herein.

36. IT IS FURTHER ORDERED that, pursuant to section 54.725(b) of the Commission's rules, 47 CFR § 54.725(b), the Universal Service Administrative Company shall recover Universal Service Fund support consistent with this order.

37. IT IS FURTHER ORDERED that, pursuant to section 1.102(b)(1) of the Commission's rules, 47 CFR. § 1.102(b)(1), this order SHALL BE EFFECTIVE upon release.

FEDERAL COMMUNICATIONS COMMISSION

Joseph S. Calascione  
Chief  
Wireline Competition Bureau