



Navigating the Audit Process

2017 E-rate Training



Universal Service
Administrative Co.

AGENDA

- Audit Overview
- Planning
- Testing
- Sufficient Documentation
- Avoiding Pitfalls
- Reporting
- Post-Audit Activity

WHY WE DO WHAT WE DO?

Assures program integrity and good business practice

- Demonstrates to Congress, USAC, FCC, and other stakeholders that funds are used correctly
- Addresses federal law requirements for the FCC and USAC
 - *IPERIA – Improper Payments Elimination and Recovery Improvement Act of 2012*
 - ◇ Requires agencies to reduce improper payments made to the wrong entity, in the wrong amount, for the wrong reason.

HOW WE ACCOMPLISH PROGRAM INTEGRITY

BCAP (Beneficiary and Contributor Audit Program)

- Designed to assess compliance with FCC rules and identify and recover overpayments via audits
 - Performed by internal USAC staff or outside audit firm

PQA (Payment Quality Assurance Program)

- Designed to assess estimated rates of improper payments via assessments, not audits

PAYMENT QUALITY ASSURANCE

What is the process?

1. Select beneficiaries
2. Send announcement letter requesting documentation
3. Review documentation provided
4. Conclude on accuracy of payment and close case
5. Submit results to the FCC

BENEFICIARY AND CONTRIBUTOR AUDIT PROGRAM (BCAP)

Audit Facts

- Audits often are performed at or near real-time
 - *i.e.*, audits are normally announced during or within a few months following the end of the funding year that is subject to the audit.
- Audits are risk based
 - *i.e.*, audits place a heavier focus on rules with a history of non-compliance.
- The Internal Audit Division is constantly looking for ways to improve the audit process, which includes sending surveys following the audits seeking feedback.

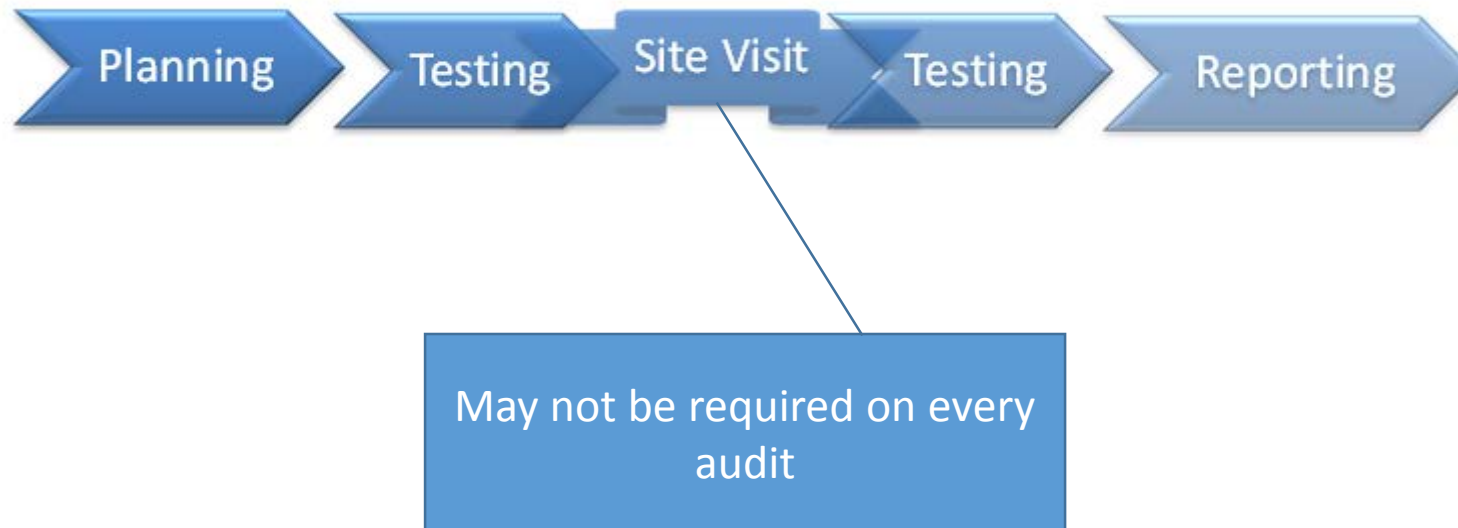
BENEFICIARY AND CONTRIBUTOR AUDIT PROGRAM (BCAP)

Audit Facts

- The Internal Audit Division assists in improving applicants' success by analyzing results and accumulating common audit findings.
 - Common audit findings are shared with the Schools & Libraries Division so that action plans for ensuring applicant success can be developed.
 - Audits look for the root causes of non-compliance so that Schools & Libraries Program outreach efforts can address the cause rather than just the result.

BENEFICIARY AND CONTRIBUTOR AUDIT PROGRAM (BCAP)

What is the process?





Planning

You Have Been Selected for an Audit... Now What?

- The audit team will call to announce the audit
- An audit announcement package will be emailed to you
 - Includes request for information (2 week turnaround)
 - Includes an internal control questionnaire
 - Includes a process interview questionnaire
- The audit team will conduct an entrance conference



Planning

You Have Been Selected for an Audit... Now What?

- The service provider(s) will be notified by the audit team of the audit
 - The auditors routinely request assistance from service providers to help lessen the burden on the beneficiaries

PLANNING

Requests for Documentation

- The auditors obtain FCC Forms, SPIs and BEARs from the Schools and Libraries Program (SLP)
- The list of documents requested from the Beneficiaries include items needed to demonstrate compliance with FCC rules that may not be obtained or maintained by SLP

PLANNING

Requests for Documentation

- The FCC's Fifth Report and Order, paragraphs 45 to 50, contains additional information on document retention requirements.
- http://www.universalservice.org/_res/documents/about/pdf/fcc-orders/2004-fcc-orders/FCC-04-190.pdf.
- The E-rate Modernization Order extended the document retention period from five to ten years.



Testing

- Audits are required to be performed in accordance with Generally Accepted Government Auditing Standards (**GAGAS**)
 - 47 C.F.R. § 54.702(n)
- GAGAS requires auditors to obtain sufficient, appropriate evidence to form conclusions on audit results and findings
 - Government Auditing Standards, GAO-12-331G, ¶ 6.56 (2011 Revision)

TESTING

Understanding Internal Controls

- GAGAS requires the auditors to obtain an understanding of the Beneficiary's internal controls and auditors may modify audit procedures based on the auditors' assessment of internal controls
 - Government Auditing Standards, GAO-12-331G, ¶¶ 6.16 and 6.17 (2011 Revision)
- Auditors examine the Beneficiary's responses to the internal control questionnaire and process interview questionnaire provided with the announcement package
- Auditors conduct additional process inquiries, as necessary

TESTING

Site Visits

- Site visits are often performed near the end of the audit
- A site visit usually spans 2-5 business days
 - The majority of testing is performed in USAC's offices
- If a site visit is necessary, the Beneficiary will be notified as soon as possible
- The auditor will coordinate with the Beneficiary on the timing and locations to be visited

TESTING

Purpose of the Site Visits

- Discuss questions developed during review of documentation provided
- Obtain additional documentation, if necessary
- Perform a physical inventory of equipment
- Determine whether Beneficiary has equipment to make effective use of E-rate supported services
- Obtain an understanding of how services are used

TESTING

Sampling

- The auditor may select samples of documentation to be provided
 - Service provider bills, including proof of payment, etc.
 - Category 2 equipment
 - For consortia, a sample of the consortium's members to ensure members' compliance

TESTING

What is Sufficient Documentation?

- The following slides provide examples of documentation examined during an audit
 - The examples are not all-inclusive
- Additional documentation may be requested throughout the audit process

SUFFICIENT DOCUMENTATION

Requests for Services

- Requests for Proposals
- Copies of bids received (winning AND losing)
- Documentation supporting the selection of the service provider
 - E.g., individual evaluation score sheets, summary score sheets, bid meeting notes, meeting sign-in sheets, etc.
- Correspondence with potential bidders, if any

SUFFICIENT DOCUMENTATION

Eligibility for Schools, School Districts, or Consortia Containing Schools or School Districts

- Auditors determine whether the Beneficiary's school(s) is recognized on the State's Department of Education (DOE) website

SUFFICIENT DOCUMENTATION

Eligibility for Schools, School Districts, or Consortia Containing Schools or School Districts

- If the school is not identified on the DOE website, the Beneficiary may provide:
 - A letter from the DOE recognizing the school as meeting the State's definition of elementary or secondary education
 - Other support, such as certification of accreditation, school charter, by-laws, etc. demonstrating the school meets the State's definition of elementary or secondary education

SUFFICIENT DOCUMENTATION

Eligibility for Schools, School Districts, or Consortia Containing Schools or School Districts

- A network diagram demonstrating Non-Instructional Facilities receiving Category 2 funds are essential for the transmission of data to educational buildings

SUFFICIENT DOCUMENTATION

Eligibility for Schools, School Districts, or Consortia Containing Schools or School Districts

- Documentation demonstrating residential schools serve unique populations, as required by the FCC's Sixth Report & Order
 - Schools on Tribal lands
 - Schools that serve children with physical, cognitive, and behavioral disabilities
 - Schools that serve children with medical needs
 - Juvenile justice schools, where eligible
 - Schools with 35 percent or more students eligible for NSLP

SUFFICIENT DOCUMENTATION

Eligibility for Libraries or Consortia Containing Libraries

- Documentation demonstrating the library is eligible in accordance with the Library Services & Technology Act (LSTA)
- Documentation demonstrating the library's budget is separate and independent of a school
 - If a budget is not available, documentation demonstrating the library's sources of revenue are independent of a school

SUFFICIENT DOCUMENTATION

Category 2 Budgets

- For schools, school districts, and consortia containing schools or school districts, student enrollment reports supporting the number of students listed in the FCC Form 471
 - If enrollment figures are not the same as figures used for the discount rate calculation, ensure you maintain reliable documentation for the number of full and part-time students identified in the enrollment.
- For libraries and consortia containing libraries, square footage floor plans as submitted to the LSTA

SUFFICIENT DOCUMENTATION

Discount Calculations

- Documentation supporting the enrollment data and NSLP eligibility listed in the FCC Form 471
 - Do not rely on the State to maintain the NSLP data
 - ◇ If the data maintained by the State contains data updated from a date other than the date used for completing the FCC Form 471, the auditor will rely on the State's revised data if the Beneficiary did not maintain the original documentation, *which could produce a lower discount rate*

SUFFICIENT DOCUMENTATION

Category 2 Equipment

- Fixed Asset Listing (FAL), including the model, installation date, and location of the equipment
- Delivery receipts, if available
- Floor plans for wiring and cable drops
- If equipment has been uninstalled or removed, documentation demonstrating why and current location

SUFFICIENT DOCUMENTATION

Basic Maintenance of Internal Connections

- Contract, including the list of equipment to be maintained with BMIC funds
- FAL, including the model and location of the equipment maintained
- Documentation, such as maintenance logs, demonstrating the maintenance was performed
 - Records must be adequate for the auditor to determine the **actual** time performing eligible versus ineligible services.

SUFFICIENT DOCUMENTATION

CIPA

- Documentation demonstrating an Internet filter was in place during the funding year audited
 - Copy of the filter log
 - Service provider bills for the purchase and/or renewal of the filter along with proof of payment
- Copy of the Internet Safety Policy (ISP), or Acceptable Use Policy (AUP)

SUFFICIENT DOCUMENTATION

CIPA

- Documentation demonstrating a public hearing was held to discuss the ISP or AUP with the public
 - E.g., Meeting minutes
- Documentation demonstrating a public notice was posted prior to the public hearing to discuss the ISP or AUP
 - The public notice should specifically state the ISP or AUP will be discussed

SUFFICIENT DOCUMENTATION

Sufficient Resources

- If the Beneficiary's non-discounted share has not been paid in-full, copy of the budget demonstrating funds have been budgeted to pay the non-discounted share
- Documentation demonstrating training has been provided to personnel to properly use the services
- Documentation demonstrating appropriate equipment and software have been secured to use the services

SUFFICIENT DOCUMENTATION

Services Received

- Copies of service provider bills
- Proof that the Beneficiary's non-discounted share has been paid
 - E.g., Cancelled checks, bank statements, accounts payable history

SUFFICIENT DOCUMENTATION

Services Received

- Reconciliation between the eligible services billed and the services invoiced on the BEAR
 - Service providers are asked to provide a similar reconciliation for services invoiced on the SPI
- Documentation demonstrating the reimbursement or credit for the funded services has been received

AVOIDING PITFALLS

Inadequate Competitive Bidding Process

- Ensure you select a service that was requested on the FCC Form 470 and RFP
 - For instance, negotiating for or selecting a service provider offering a higher bandwidth than requested can inadvertently taint the competitive bidding process since other service providers may not have known you would consider higher bandwidth
- Do not stray away from the evaluation criteria published in your FCC Form 470 or RFP
 - Service providers may not have the accurate information to provide an informed bid

AVOIDING PITFALLS

Inadequate Competitive Bidding Process

- Criteria for the cost of eligible services should be evaluated only for cost
 - For instance, if a service or product is considered inferior to another, then it should be reflected in a separate quality criterion. Scoring a higher cost service provider more favorable in the cost criteria because the service or product is better value does not demonstrate you considered cost of the eligible services as the primary factor.

AVOIDING PITFALLS

Inadequate Competitive Bidding Process

- Ensure you can demonstrate disqualified bids did not meet the requirements of the services requested
 - Not considering a bid received because it offered a lower bandwidth than other service providers is not a valid reason for disqualification if the lower bandwidth was still within the range requested.

AVOIDING PITFALLS

Over-Invoicing the Schools & Libraries Program

- Maintain reconciliations demonstrating how the services billed in the service provider bill agree to the pre-discounted cost of services in the BEAR
- Services invoiced to SLP must have been requested in the FCC Form 471 or approved by SLP as a service substitution
- Ensure a proper allocation of costs has been made for ineligible students or locations

AVOIDING PITFALLS

Over-Invoicing the Schools & Libraries Program

- Have a secondary reviewer examine invoices for accuracy
 - Invoicing under the incorrect FRN could result in recommending recovery of dollars disbursed
- Ensure any rebates or free services have been accounted for
 - Equipment or services delivered at no charge or at a discounted rate not available to the public may constitute a rebate in which the assigned value should be reduced from the pre-discounted cost of the eligible services invoiced to SLP

AVOIDING PITFALLS

Lack of Documentation

- Maintain documentation of the enrollment and NSLP figures that were used in submitting the FCC Form 471
- Ensure an accurate fixed asset listing is maintained for E-rate supported equipment

AVOIDING PITFALLS

Lack of Documentation

- Maintain evidence the technology protection measure was in place and the Internet Safety Policy existed
 - Remember that the FCC rules require documentation to be maintained for ten years **following the last date of service received**
- Maintain documentation demonstrating the most cost-effective service provider was selected when a service provider other than the cheapest option was selected

AVOIDING PITFALLS

Insufficient Resources to Make Effective Use of Services

- Demonstrate you have the resources to provide adequate maintenance to keep equipment operational
- Ensure you can pay the service provider for your non-discounted share of services within 90 days following the last date of services received
- Demonstrate necessary equipment will be purchased and installed to utilize the E-rate supported equipment and services

Reporting

- A **finding** is a condition that shows evidence of noncompliance with FCC rules and SLP regulations
- An **other matter** is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary and SLP management's attention
- An exit conference is conducted during the reporting phase to discuss the audit results and any findings or other matters
 - Findings and other matters will be communicated throughout the audit as they arise
- A survey will be provided for the Beneficiary to gather feedback on the audit process and suggest improvements

REPORTING

Audit Findings

- All draft audit findings are reviewed by Internal Audit Division management before they are sent to the Beneficiary
- All draft audit findings are provided to the Beneficiary and Service Provider, if necessary, to obtain a written response
- All draft audit findings are provided to SLP, with the Beneficiary's response, to obtain a written response
- SLP seeks recovery and/or takes corrective action

REPORTING

Audit Reports

- The internal review process is time consuming (approximately two months)
- The auditors may be asked for additional information, which may require the auditors to conduct follow-up with the Beneficiary
- When the review process is complete, the Beneficiary will receive the audit report, which is signed by the Vice President of the Internal Audit Division and contains all findings and other matters with the Schools & Libraries Program responses

REPORTING

Audit Reports

- If SLP seeks recovery of funds, SLP will send a Commitment Adjustment (COMAD), or a Recovery of the Improperly Disbursed Funds (RIDF), letter
 - The Beneficiary has a right to appeal the COMAD, or RIDF.
- Once the final audit report is delivered, the Internal Audit Division is not involved in the corrective action.
 - IAD must maintain its independence from management decisions

POST-AUDIT PROCESS

Survey Provided

- We are soliciting information to improve the audit process
- We ask questions on auditor professionalism
- Request feedback on suggestions to smooth audit burden and to improve communications
- Survey results are compiled and shared with USAC Executive Leadership and Board of Directors
- We also ask questions on USAC Outreach efforts

POST-AUDIT SURVEY

USAC Outreach Section

- **Q16:** Do you or other individuals in your organization utilize USAC resources to help learn about the E-rate Program?
<Yes or No Response>
- **Q17.** Using the matrix to the right, indicate the USAC resources that you are aware of, utilize, and/or think are effective.

Question 17	Aware	Utilize	Effective
USAC Website			
Email Contact			
SL News Brief			
Videos/Online Tutorials			
HATS Visit			
Webinars			
Toll-free Customer Support			
One-on-One Assistance			

POST-AUDIT SURVEY

USAC Outreach Section

- Q18: What other means of outreach would you like to see USAC provide? <Response>
- Q19. Please indicate to what extent USAC provides sufficient information for the following.

Question 19	Strongly Agree	Agree	N/A	Disagree	Strongly Disagree
Formatting and itemization of service provider bills					
Competitive bidding documentation					
CIPA requirements					
Discount calculation					
Document retention requirements					

EFFICIENT AUDITS

What Can a Beneficiary Do to Ensure Success?

- Respond to audit requests in a timely manner
- Ensure the individuals with the appropriate knowledge are available

EFFICIENT AUDITS

What Can a Beneficiary Do to Ensure Success?

- Provide complete documentation
 - Use EPC for documentation
 - If the Beneficiary does not believe complete documentation is available, inform the auditor immediately so that alternative procedures can be discussed
- Seek assistance from service providers
 - IAD notifies service providers of the audit

ADDITIONAL RESOURCES

- Information regarding audits is located on USAC's website at <http://www.usac.org/about/about/program-integrity/>
- Samples and examples of various documents are located on USAC's website at <http://www.usac.org/sl/tools/samples.aspx>

Q&A SESSION

THANK YOU!