

Navigating Through the Audit Process

Schools and Libraries Training,
September and October 2008

USAC Internal Audit Division

USAC and the Universal Service Fund

Overview

USF & USAC

- The Universal Service Fund (USF) is one fund with four programs
- USAC is a not-for-profit corporation selected as the permanent administrator of the federal USF
- In 2007, USAC disbursed approximately \$6.95 billion in universal service support
- USAC administers support programs for:
 - High cost companies serving remote and rural areas
 - Low-income consumers
 - Schools & libraries
 - Rural health care providers
- Through USAC, the USF provides communities across the country with affordable telecommunications services

How does the USF Work?

- All telecommunications companies contribute to the USF based on their interstate and international revenues
- USAC collects and disburses these funds to participants in the four support programs
- Participants in the Schools and Libraries and Rural Health Care programs apply directly to USAC for support
- Rural and non-rural telecommunications companies eligible for High Cost program support submit cost, expense, and other data to USAC to qualify for support
- Low-income consumers apply for discounts for local telephone service or installation through their local telephone companies, which are reimbursed by the USF for providing the discounts

Internal Audit Division

- **History**
 - Audits began at the creation of USAC
 - Expansion of internal USAC staff
 - Evolution of procedures
- **Internal Audit Staff**
 - Auditors by experience
 - Accounting/ Finance background
 - Telecommunications experience
- **Role within the organization**
 - Service to USAC senior leadership
 - USAC Board of Directors

Why Conduct Audits?

- Ensure compliance with FCC Rules.
- Recover funds for rule violations.
- Ensure equitable contributions to USF (recoveries lower contribution factor).
- Prevent, detect and deter waste, fraud, and abuse.
- Ensure public confidence in the efficiency of the federal universal service programs.

Why Conduct Audits?

- **Required by Law**
 - 47 CFR 54.516(c) USAC has authority to conduct audits.
 - Inspector General Act of 1978, as amended.
 - Conduct independent and objective audits, investigations and inspections.
 - Prevent and detect waste, fraud and abuse.
 - Improper Payments Information Act (IPIA)

Improper Payments Information Act

- 31 USC § 3122; Public Law 107-300, Stat. 2350, Nov. 26, 2002
- Federal agencies are required to review all programs and activities that it administers and identify all such programs and activities that may be susceptible to significant improper payments.
- All agencies will estimate the annual amount of improper payments per program.
- Must continue reviews if annual improper payments greater than \$10 million.

What is an Improper Payment per IPIA?

- Per President's Office of Management and Budget, an erroneous or improper payment is:
 - “any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service).”

Improper Payments Per IPIA

- Can be based on inadequate documentation.
- Per OMB, “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.”

Types of Audits

USAC Internal Audit Division (IAD) Audit

- Performance Audit
 - Assess compliance with FCC Rules.
 - Recalculate support/contributions.
 - Conclusion is Compliant, Generally Compliant and Not Compliant.
 - Provides “reasonable assurance”.
 - Targeted based on
 - Specific request from USAC management or FCC.
 - Media report or credible whistleblower complaint.
 - IAD risk assessment.
- Conducted and managed by IAD in accordance with Government Auditing Standards (GAGAS).

Types of Audits

FCC OIG IPIA Audits

- Compliance attestation examinations.
- Performed at the direction of and with oversight from the FCC Office of Inspector General (OIG) .
- Managed by USAC IAD.
 - OIG Randomly selected, statistically valid sample.
- Conducted by external accounting firms.
- Annually between November and July 31.
- Conducted in accordance with Government Auditing Standards (GAGAS).

FCC OIG IPIA Audits

- What does Directed by OIG mean?

OIG determines:

- Number and identity of auditees in each USF program area.
- Schedule (start date and 7/31 deadline).
- Audit type: Attestation Examination.

FCC OIG IPIA Audits

- What is in an Attestation Examination?
 - Company provides a letter from management asserting that support received during audit period complied with applicable FCC Rules.
 - Audit firm performs an **examination** and provides an **opinion** as to whether the assertions are fairly stated and reporting any findings of *material* non-compliance.
 - Audit firm provides a **management letter** addressing any *non-material* non-compliance (if any).
 - USAC separately issues a **USAC management response** addressing both material and non-material findings.
- Why use Attestation Examinations?
 - Independence from USAC: Firms solely responsible for audit steps required to support their opinion.

FCC OIG IPIA Audits

Attest Examination Outcomes

- Unqualified opinion - “clean”.
 - Management assertions of compliance are fairly stated.
 - Can have non-material non-compliance reflected in separate letter to company management.
- Qualified opinion - “except for”.
- Adverse opinion - negative opinion.
- Disclaimer - unable to express an opinion.
- Withdrawal from the engagement.

FCC OIG IPIA Audits

Types of Results - Data Being Collected by OIG

- **Rates of Compliance with FCC Rules.**
 - Frequency and Distribution of Non-compliant Assertions.
 - Material and non-material non-compliance.
 - Causes for non-compliance.
- **Improper Payment Rate.**
 - Over- and under-payments considered improper.
 - Material and non-material improper payments reported.
 - *Disclaimers driven by lack of supporting documentation result in 100% of disbursements being considered improper.*
 - FCC OIG extrapolates improper payment rates in audited population to the population of all USF participants in respective program area.

IPIA Round 1 Results

■ Numbers of Audits

– High Cost	65
– Low Income	61
– Schools & Libraries	155
– Rural Health Care	89
– Contributor Revenue	<u>90</u>
TOTAL	460

- 13 accounting firms were needed to perform the audits.
- 4 firms were needed to provide audit quality assurance.

IPIA Round 1 Results

- **OIG issued Round 1 IPIA reports on 10/2/2007**
 - “In general, the audits indicated compliance with the Commission’s rules”
 - **OIG-reported improper payment (“IPIA”) rates by program:**
 - High Cost - 16.6%
 - Schools and Libraries - 12.9%
 - Low Income - 9.5%
 - Rural Healthcare - 20.6%
 - Contributor Revenue - 5.5%

IPIA Round 1 Results

- Causes of improper payments:
 - Lack of documentation.
 - Most often occurred with respect to invoices supporting reimbursement forms.
 - Also included documentation supporting discount calculation, contracts with service providers and competitive bidding documents.
 - In most cases, the lack of documentation resulted from beneficiaries not maintaining files designed specifically to support their E-rate requests.

IPIA Round 1 Results

- Causes of improper payments:
 - Inadequate asset tracking systems.
 - Beneficiaries did not maintain accurate inventory records, therefore auditors could not account for all funded equipment.

IPIA Round 1 Results

- **Causes of improper payments cont.:**
 - Discount calculation discrepancies.
 - For 20 % of the selected FRNs, the auditors noted differences in the Block 4 numbers when compared to the beneficiaries' supporting documentation.
 - These differences were mainly attributed to beneficiaries not maintaining the actual source date used to complete Block 4. Instead, the beneficiaries provided the auditors with data from the same general time period.
 - **Funded services in ineligible locations.**
 - Services and equipment were funded for ineligible entities, such as pre-K or juvenile justice in states where they are not recognized as elementary or secondary schools.

IPIA Audits Round 2

- **OIG-determined Number of Audits:**
 - High Cost – substantially more than Round 1.
 - Schools & Libraries – substantially more than Round 1.
- **OIG established stratified sample universe.**
 - Random selection within each stratum.
 - Universe and sample included Round 1 auditees.
- **Field work and IPIA Assessments were completed by 7/31/08.**
- **Audit reports must be completed by 9/30/08.**
 - Reports will be approved by the USAC Schools and Libraries Committee.
 - Sent to auditee within 1 week of approval.

IPIA Audits Round 2

- **Round 2 Challenges**
 - Substantially more audits; significantly less time.
 - 5 new audit firms added to meet deadline.
 - Scope based on entity activity vs. single FRN.

IPIA Audits Round 3

- **Expect continuing improvement in the audit experience.**
 - Firms and USAC gaining valuable experience with each Round.
 - Firms better understand program rules.
 - Quality Assurance firms provide valuable overall feedback and training support.

And the show begins...

Or at least the audit.

The Audit Process

- **Announcement letter**
 - Phone call to answer questions and discuss site visit.
- **Documentation requests**
 - Documents received within 2 weeks of audit announcement.
 - Documents received at the time of site visit.
- **Entrance Conference**
 - Formal discussion to introduce audit staff, audit objectives, overview of the process, reporting and timing.

The Audit Process

- **Field Work**
 - Site visits vary in length.
 - Field work is performed both at the beneficiary site and at auditor offices.
- **Reporting**
 - **Performance Audit**
 - Compliant, Generally Compliant, Not Compliant
 - Detailed Audit Findings (DAFs)
 - Other Matters
 - **Attestation Audit**
 - Unqualified, Qualified, Adverse, Disclaimer
 - Audit Findings
 - Management Letter

The Audit Process

- **Exit Conference**
 - Discuss audit findings in detail.
- **Management Responses**
 - Beneficiary Response.
 - USAC Management Response.
- **Presentation to the Board**
 - Reports presented in open session at the Schools and Libraries Committee.
- **Final report sent to applicant.**
- **Audit survey sent to applicant.**

SLD Post Audit Follow-up

- Based on FCC Directive
- Email sent to beneficiary to follow-up on audit findings
 - Request for documentation.
 - Auditor/USAC recommended procedures.
 - Additional information related to the audit findings.
 - Tip Sheet.
 - Website Reference.

SLD Post Audit Follow-up

- Non-compliance letters
 - Sent for audits where conclusion is not compliant or adverse.
 - Request for documentation.
 - Auditor/USAC recommended procedures.
 - Additional information related to the audit issues.
 - Sent to applicant, service provide or both.
 - 6 months to respond.
 - Funding is placed on hold until response is received.
 - If no response is received, funding will be denied.
 - S&L Audit response will contact beneficiary after 1 month to confirm receipt and answer questions.

Examples of rule violations that warrant recovery?

- Insufficient documentation of the competitive bidding process.
- Lack of necessary resources.
- Service substitutions that would not meet criteria established in the rules.
- Receipt of duplicative services.
- Failure to pay non-discounted share.
- Failure to complete service(s) within the funding year.
- Discount calculation violation.
- Services not provided for full funding year.
- Failure to have an approved technology plan.

It is Important to know who violated the rule

- USAC seeks recovery from the party or parties in the best position to prevent the rule violation.
- USAC must determine whether the applicant, service provider, or both are responsible for the rule violation.

How does USAC determine the responsible party?

- The FCC has laid out general guidelines which USAC built into its procedures:
 - Service Provider recovery situations:
 - Failure to properly bill for supported services.
 - Failure to deliver services within the relevant funding year.
 - Delivering services that were not approved on FCC Form 471.
 - School or Library recovery situations:
 - Violation of the competitive bidding requirements.
 - Insufficient resources to make use of the supported services.
 - Incorrect calculation of the discount percentage.
 - Failure to pay the non-discount portion.
 - BEAR amount exceeds amount of invoices received from service provider.

What is a COMAD?

- A COMAD, or Commitment Adjustment, is where USAC determines that funds were committed in violation of program rules.
- When a COMAD is discovered, USAC must then adjust those funding commitments.
- If the amount of the revised commitment (original commitment less COMAD amount), is less than the disbursed amount, then USAC will seek recovery of the difference.

Examples of a COMAD

- Funding approved for ineligible services.
- Funding approved at a discount rate higher than that which can be supported.
- Funding for services requiring a tech plan, when no tech plan is in place.
- Funding provided when the competitive bidding requirements have not been met.
- USAC was invoiced in excess of the amount the applicant was invoiced by the service provider

What is a RIDF?

- A RIDF or Recovery of Improperly Disbursed Funds is where USAC discovers that funds were disbursed in error, but the decision to commit the funds was correct. USAC will seek recovery, however, the commitment amount will not be adjusted.
- Once the RIDF has been repaid, SLD will pay any valid invoices for the funding request.

Examples of a RIDF

- Funds disbursed in excess of the services delivered.
- Funds disbursed for services not approved on FCC Form 471.
- Non-COMAD recoveries are generally discovered via the audit process.

Recoveries and Appeals

- Auditees have 60 days from the date of the COMAD or RIDF Letter to appeal decisions made or actions taken by USAC (47 C.F.R. §§ 54.719, 54.720).

Navigating Through the Audit Process

Section II

Presentation Layout

- Organized in order of the process.
 - Documentation (based on our experience, not all encompassing of the documentation auditors may request)
 - Common audit findings
 - Best practices

How to prepare for an audit?

- Provide documentation in a timely manner.
 - The efficiency of the audit will depend on the availability of your staff and the condition of the documentation made available prior to and/or during the course of the audit.
- Ask questions to ensure you are providing adequate documentation.
- Keep accurate and organized records.
 - E-rate binder, organized by Funding Year.
- Maintain documents for 5 years after the last date to receive service.
- **DOCUMENT everything!**

Documentation auditors may request

- Financial Statements
 - Applicants may not have endowments exceeding \$50 million.
- Non-profit status (primarily for private and charter schools) – IRS not-for-profit determination letter.
 - Schools and libraries operating as for-profit businesses are not eligible for funding.
- For Head Start, Pre-K, Juvenile Justice and Adult Education facilities – documentation from your state showing that these facilities meet the definitions of elementary or secondary schools.

Documentation auditors may request cont.

- **School Consortia**
 - Listing of all schools for member districts
 - Documentation that supports assertion that all member entities meet the statutory definition of elementary or secondary schools.
- **Library Consortia**
 - Documentation that supports assertion that all member entities are eligible for assistance from a State library administrative agency under the Library Services and Technology Act.

Common findings

- USAC is invoiced for equipment or services delivered to ineligible entities.

Best practices

- Applicant maintains copies of relevant financial statements.
- If not for profit, applicant maintains copy of IRS not-for-profit determination letter, or other documentation that verifies applicant's not-for-profit status.
- Applicant maintains copies of relevant state laws/statutes showing that any participating Head Start, Pre-K, Juvenile Justice and Adult Education facilities meet the definitions of elementary or secondary schools.
- Consortium leads obtain and maintain Letters of Authorization (LOAs) from all participating entities.
- All documentation is maintained in E-rate binder.
 - The sample E-rate Binder Table of Contents can be located on USAC's website at:
<http://www.usac.org/res/documents/sl/pdf/E-Rate-binder.pdf>

E-rate Binder

Guide to E-Rate Binder Table of Contents

1. USAC Forms & Certifications

- 1.1. [Form 470 & delivery confirmations](#)
- 1.2. [Form 471 & delivery confirmations](#)
- 1.3. [Form 472 & delivery confirmations](#)
- 1.4. [Form 479 \(Consortium members & consortium leaders only\)](#)
- 1.5. [Form 486 & delivery confirmations](#)
- 1.6. [Form 500 & delivery confirmations](#)

2. USAC Letters

- 2.1. [Form 470 Receipt Notification Letter \(RNL\)](#)
- 2.2. [Form 471 Receipt Acknowledgment Letter \(RAL\)](#)
- 2.3. [Form 471 Out Of Window Letter \(OOW\)](#)
- 2.4. [Funding Commitment Decision Letter \(FCDL\)](#)
- 2.5. [Form 486 Notification Letter](#)
- 2.6. [Form 500 Notification Letter](#)
- 2.7. [BEAR Notification Letter](#)
- 2.8. Quarterly Disbursement Reports (QDR)
- 2.9. Other USAC letters

3. Technology Plan & Approval Letter

- 3.1. Written Technology Plan with Creation Date
- 3.2. Approved Technology Plan
- 3.3. Approved Technology Plan updates
- 3.4. Certified Technology Plan Approver Letter (or screen print if approval is maintained online)
- 3.5. Professional Development Training Log (**Sample Available**)
- 3.6. Technology Plan Training Sign In Sheet (**Sample Available**)

4. Competitive Bidding, Vendor Evaluation & Contracts

- 4.1. State and Local Procurement Regulations (printout or website reference)
- 4.2. RFP/ Public Notice/ Advertisement
- 4.3. All Vendor responses & Bids received (winning and losing)
- 4.4. [Bid Evaluation criteria, Evaluation Matrix & Bid ratings](#) (**Sample Available**)
- 4.5. Notice of Award letters
- 4.6. Miscellaneous documents (memorandums, board minutes, notes to file)
- 4.7. [Signed and Dated Contracts/ Service Agreements/ Notice of Award Letters](#)
- 4.8. Contract Amendments/Addendums/Extensions
- 4.9. [State Master Contracts \(printout or website reference\)](#)
- 4.10. Vendor Correspondence

5. PIA Review

- 5.1. [Letter of Agency \(LOA\) consortium](#) (**Sample Available**)
- 5.2. [Consultant agreement or LOA](#)
- 5.3. Responses to PIA inquiries (email, faxes, case numbers)
- 5.4. [Entity eligibility documentation \(state website printout, matching records, etc.\)](#)
- 5.5. [Discount eligibility calculation documentation](#) (**Sample Available**)
- 5.6. [Item 21 Attachment](#) (online or paper) (**Samples Available**)

There have been many requests for USAC to provide guidance with respect to what documents should be retained. Here is a guide that may be helpful. In addition, retaining this type of information will be very helpful if USAC requests this information in the future. This guide is not mandatory or intended to serve any other purpose than to respond to requests for guidance.

E-Rate Binder Table of Contents Guide

- 5.7. [Product Service Eligibility \(warranties, product descriptions, network diagrams, etc.\)](#)
- 5.8. Budget (Final approved, Superintendent Letter, draft budget, Grant Letters)
- 5.9. Request to Cancel Services

6. CIPA (Children's Internet Protection Act)

- 6.1. Undertaking Actions to comply with CIPA (e.g., public notice, public meeting or hearing minutes, etc.)
- 6.2. Filtering Documentation (purchase, installation, use)
- 6.3. Internet Safety Policy

7. Service Delivery & Inventory Management

- 7.1. [Inventory/Asset Registry](#) (**Sample Available**)
- 7.2. Schematic of equipment
- 7.3. Receipt of service/ product and installation log (work orders)
- 7.4. Replacement Log (replacement or upgrades)
- 7.5. Maintenance Log
- 7.6. Equipment transfer log

8. Invoicing & Payments

- 8.1. Customer Bills
- 8.2. Reconciliation Worksheet
- 8.3. Service Certifications
- 8.4. Proof of Payment of discount and non-discount amounts (cancelled checks, bank statements)
- 8.5. Reimbursement from vendor verification (BEAR only)
- 8.6. Miscellaneous (memos to vendors, notes to file, emails)

9. Change Requests & Appeals

- 9.1. [Appeal Request](#) (**Checklist Available**)
- 9.2. Appeals Delivery Receipt (proof of postmark, fax confirmation)
- 9.3. [Service Substitution Request](#) (**Sample & Checklist Available**)
- 9.4. [SPIN Change Request](#) (**Checklist Available**)
- 9.5. Documentation of Funds Returned to USAC
- 9.6. [Invoice Deadline Extension Request](#)
- 9.7. [Service Deadline Delivery Request](#)
- 9.8. [Transfer of Equipment Notification](#)

10. Miscellaneous

- 10.1. PIN mailer (For the authorized user)
- 10.2. Site Visit documentation
- 10.3. Audit documentation

Technology Plans

Documentation auditors may request

- Copy of a draft plan dated prior to Form 470 submission.
 - In the Fifth Report and Order, the FCC emphasized that applicants are still expected to develop a technology plan prior to submitting a 470.
 - Must address the technologies requested on Forms 470.
 - Must contain the five required elements.
 - The plan must establish clear goals and a realistic strategy.
 - The plan must have a professional development strategy.
 - The plan must include an assessment of the telecommunication services, hardware, software, and other services.
 - The plan must provide a sufficient budget to acquire and support the non-discounted elements of the plan.
 - The plan must include an evaluation process that enables the school or library to monitor progress toward the specified goals and make mid-course corrections.

Technology Plans

Documentation auditors may request cont.

- Copy of final technology plan and approval letter.
 - In the Fifth Report and Order, the FCC amended the rules to require that technology plans must be approved prior to the start of services.
 - Must address the technologies requested on Forms 470.
 - Must contain the five required elements.
- Copy or Copies of updated technology plans.

Technology Plans

Common audit findings

- Technology plan did not contain the five required elements.
- Technology plan approved after services have started.
- Technology plan does not address technologies requested on Form(s) 470.

Technology Plans

Technology plan best practices

- The five required elements are clearly laid out in the technology plan.
- All technologies that are requested on Form(s) 470 are addressed in the technology plan.
- Technology plans are approved prior to the start of services.
- Technology plan is approved by a SLD or FCC certified technology plan approver.
 - Can be located on USAC's website at:
<http://www.usac.org/sl/tools/search-tools/tech-plan-approver-locator.aspx>

Technology Plan Approver Locator

Certified Technology Plan Approver Locator

The Technology Plan Approver Locator is a tool designed to match up applicants with SLD-certified Technology Plan Approvers. Applicants who are seeking support for services other than basic local and/or long distance telephone service (wireline or wireless) must prepare technology plans and have those plans approved by an SLD-certified Technology Plan Approver.

To find a Technology Plan Approver appropriate for your entity type, please select your state and entity type below. After making your selection, click the "Search" button, and a results list will be generated based on the criteria you selected. The results list will provide you with contact information for all organizations fitting your criteria that are actively participating as SLD-certified Technology Plan Approvers. It is important to note that some of the organizations listed will only approve Technology Plans for their member schools or for a specific type of school.

Please be advised that some of the Technology Plan Approvers listed may charge a fee for Technology Plan Approval services. You are encouraged to check with a Technology Plan Approver for information on restrictions, fees, charges, and the like, before requesting review of your Technology Plan.

In the event you are unable to locate an SLD-certified Technology Plan Approver - or if the Technology Plan Approver you would like to use is not listed in the Technology Plan Approval Locator - please contact the SLD via [e-mail](mailto:usac@sls.gov) or via fax at (202) 776-0080. Please be sure to provide us with your Billed Entity Number, the state in which your school or library is located, and your contact information.

Step 1: Select Your State.

State:

Step 2: Select Your Entity Type.

School Type:

- BIE Catholic Christian
 Independent / Private Jewish Public

OR

Library:

- Library

Step 3: Click the "Search" button.

Technology Plans

Technology plan best practices cont.

- Technology plan and all updated versions are dated.
- Keep copies of all technology plan documents (draft technology plan, final technology plan and approval letter) in E-rate binder.

Children's Internet Protection Act (CIPA)

Documentation auditors may request

- Internet Acceptable Use Policy or Internet Safety Policy.
 - The Internet safety policy must address the following components:
 - Access by minors to inappropriate matter on the Internet and World Wide Web.
 - The safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications.
 - Unauthorized access including "hacking" and other unlawful activities by minors online.
 - Unauthorized disclosure, use, and dissemination of personal information regarding minors.
 - Measures designed to restrict minors' access to materials harmful to minors.

Documentation auditors may request cont.

- Record of a public hearing or notice.
 - Per the FCC’s CIPA Order, there must be reasonable public notice and at least one public hearing or meeting to discuss the proposed Internet safety policy and technology protection measure.
 - Board meeting minutes, advertisements, etc.
- Evidence a technology protection measure was in place during the audited Funding Year.
 - Filter reports.
 - Documentation showing the purchase or renewal of filter equipment, software and/or licenses.
 - Must cover the Funding Year(s) being audited.

Common audit findings

- Applicant did not have an Acceptable Use Policy or Internet Safety Policy.
- Applicant's Acceptable Use Policy or Internet Safety Policy does not contain the required five components.
- Applicant did not conduct a public hearing or notice, or could not produce documentation to show that public hearing or notice occurred.

Best practices

- The five required components are clearly laid out in the Acceptable Use Policy or Internet Safety Policy.
- Documentation supporting a public hearing or notice is maintained.
- On the first day of the Funding Year, and periodically throughout the year, common filter reports (i.e. most accessed websites or most blocked websites) are run, printed and maintained.
- Documentation supporting the purchase or renewal of filter equipment, software or licenses is maintained.
- All documentation supporting compliance with CIPA rules is maintained in E-rate binder.

Discount Calculation

Documentation auditors may request

- Report of NSLP, Survey, Provision I, II, III numbers, etc. used to complete Block 4 of Form(s) 471.
 - Auditors will expect report data matches the data on Block 4.
- NSLP, Provision I, II, or III documentation submitted to the state or USDA.
 - If using NSLP numbers – evidence of verification per USDA guidelines.
- Sample of applications or surveys collected.
 - In July 2008, the FCC OIG and USDA reached an agreement that will allow sharing of NSLP information.

USDA Agreement

- Applicants may share individual children's information as long as the following conditions are followed:
 - Compare total enrollment data with total free and reduced priced eligibility data;
 - Request applications for a sample of eligible students;
 - Confirm an application or other documentation exists for each selected student; and
 - Auditors are not permitted to retain personal student information.
 - The applicant may redact personal student information from the applications or other documentation.

Discount Calculation

Common audit findings

- Applicant can not provide discount calculation data used to complete Block 4 of Form(s) 471. Auditors must be able to perform recalculation of discount using other available data.
- Applicant uses ineligible discount calculation method.
- Applicant uses NSLP applications as survey.

Discount Calculation

Common audit findings cont.

- Library does not obtain or maintain discount calculation documentation of the school district in which it resides.

- Consortium lead does not obtain or maintain discount calculation documentation of its member schools or districts.

Discount Calculation

Best practices

- Reports and supporting documentation containing the data used to complete Block 4 of the Form(s) 471 are maintained.
 - Libraries and Consortium leads are expected to obtain and maintain the discount calculation documentation used to complete their application(s).
- Document the method used to calculate discount.
- All documentation is maintained in E-rate binder.

Competitive Bidding

Documentation auditors may request

- State and local procurement regulations or policies.
 - FCC Rules state applicants must follow all state and local procurement regulations or policies in addition to the FCC Rules.
- Request For Proposal (RFP), Request For Quote (RFQ), Public Notice, Advertisement, Emails, etc.
- All vendor responses and bids received (winning and losing).
 - In the Fifth Report and Order, the FCC specifically stated that all bids must be maintained.

Competitive Bidding

Documentation auditors may request cont.

- Bid evaluation criteria, evaluation matrix, bid ratings.
- Memorandums, Board minutes, notes to file, email to file pertaining to procurement or bid evaluation process.
- Signed and dated contracts, service agreements, notice of award letters, etc.
- Contract amendments, addendums, extensions, etc.
- State master contracts.
- Vendor correspondence.

Competitive Bidding

Common audit findings

- Documentation to support competitive bidding process was not maintained.
- Applicant did not consider all bids received.
- Applicant enters into agreement with a service provider prior to the 28-day waiting period after filing FCC Form(s) 470.

Competitive Bidding

Best practices

- Applicant thoroughly documents the competitive bidding process:
 - Maintains copies of RFPs, RFQs, etc.
 - Maintains copies of all bids received (winning and losing).
 - If no bids received in response to 470 or RFP/RFQ, applicant contacts service providers to solicit bids (this process should be documented/memorialized in a memo or email to the file).
 - Maintains copies of all bid evaluations.
 - Maintains copies of all correspondence with interested vendors.
- Applicant develops bid evaluation matrix.
 - Price is the primary factor.
 - Only relevant factors considered.

Sample Bid Evaluation Matrix

Bid Evaluation Matrix (Points Based) SAMPLE

There have been many requests for USAC to provide guidance with respect to what information should be included as you conduct your bidding process. Below is an example of information that may be helpful. In addition, retaining this type of information will be very helpful if USAC requests this information in the future. This example is not mandatory or intended to serve any other purpose than to respond to requests for guidance.

In this example, each factor is worth the same number of points as the weighting percentage. Vendors are rated on how well they met each factor. The entries for all factors are then totaled for each vendor. The winning bidder is the one with the highest number of total points. The cost of the eligible goods and services must be weighted most heavily.

No	Factors	Total Points Available	Vendor 1 143xxxxxx ABC Inc.	Vendor 2 143xxxxxx DEF Inc.	Vendor 3 143xxxxxx GHI Inc.	Vendor 4 143xxxxxx JKL Inc.
1	<i>Cost of the Eligible Goods and Services</i>	40 *	38	25	38	0
2	<i>Experience</i>	20	18	17	20	0
3	<i>Availability</i>	10	10	8	7	0
4	<i>Minority Business Status</i>	10	6	9	9	0
5	<i>In State Preference</i>	10	3	7	10	0
6	<i>Cost of the Ineligible products</i>	5	4	1	5	0
7	<i>Project Management Expertises</i>	5	2	1	5	0
Total Points		100	81	68	94	0

* This number must be higher than all of the other numbers in this column.

Winning Bidder:

Vendor 3 (GHI, Inc.) is the winning bidder because it has the highest total points.

Disqualified Bidders:

Bidder Reason for Disqualification

JKL Inc All interested bidders received two weeks' notice of a required pre-bid conference.

JKL Inc. did not attend this conference and did not provide a reason for its absence.

Service Delivery and Inventory Management

Documentation auditors may request

- Fixed asset listing/Equipment inventory.
- Equipment packing slips.
- Documentation supporting receipt of maintenance services received.
- Documentation supporting applicant receipt of equipment installation (sign-off of work completed).

Service Delivery and Inventory Management cont.

Common audit findings

- Funded equipment is not in use.
- Funded equipment can not be located.
- Ineligible equipment or services purchased with E-rate funding.
- Spare equipment is purchased with E-rate funding.

Spare Equipment



Service Delivery and Inventory Management cont.

Common audit findings cont.

- Equipment is installed in ineligible locations.
- Applicant does not maintain documentation to show that maintenance services are received.

Service Delivery and Inventory Management

Best practices

- All funded equipment is installed, operational and in use.
- Applicants maintain equipment inventory with enough detail to locate all equipment funded by E-rate.
 - Information to include, Funding Year, 471 number, FRN, Location, Serial number, Make & Model, USAC invoice number, Install Date, Customer Bill Information, Replacement Date, etc.
 - Sample inventory can be located at:
http://www.usac.org/res/documents/sl/pdf/2007_training/samples-checklist-inventory-list.pdf

Sample Equipment Inventory

ASSET REGISTER (Inventory List): Little Red School House School District

There have been many requests for USAC to provide guidance with respect to what information should be included as you maintain products for which you have received E-Rate discounts. Below is an example of an inventory tracking worksheet that may be helpful. In addition, retaining this type of information will be very helpful if USAC requests this information in the future. This example is not mandatory or intended to serve any other purpose than to respond to requests for guidance.

471 App Number	FRN	Applicant Name	BEN	Fund Year	Category of Service	Equipment Description	Serial #	Make & Model	Date of Purchase	USAC Invoice #	Install Date	Original Location	Current Location	Replacement Date (if applicable)	Customer Bill Date	Customer Bill #	Bill amount	Notes
111111	1234567	Little Red School House SD	78901	2006	Internet Access	Modem	S-1000ABC2345cs	Pinacle USB Modem V.92 56K	15-Jul-06	123123	30-Jul-06	Little Blue School IDF 1st floor NW			1-Jul-06	ABC-IC001	\$ 500.00	
111111	1234568	Little Red School House SD	78901	2006	Internal Connections	Email server	123-45-676	Zeon XP9100	15-Jul-06	2121212	30-Jul-06	Yellow HS Admin IDF #4356	Yellow HS MDF Room #690	22-Feb-07	1-Jul-06	ABC-IC002	\$ 500.00	Server was replaced as a result of an electrical fire. Replaces serial # S-123-55-633
111115	2345678	Little Red School House SD	78901	2006	Internal Connections	Switch	abc690707h8a60	Acme XB1 Switch	1-Aug-06	2121212	5-Aug-06	Yellow High School Admin IDF Room #4357	Yellow HS MDF Room #691	22-Feb-07	1-Aug-06	ABC-IC 003	\$ 1,000.00	Switch was replaced as a result of an electrical fire. Replaces serial # jkl-8905690676
111115	2345678	Little Red School House SD	78901	2006	Internal Connections	UPS		Power Sentry 3000	2-Aug-06	2121212	5-Aug-06	Yellow HSI Admin IDF Room #4358	Yellow HS MDF Room #692	22-Feb-07	1-Aug-06	ABC-IC 003	\$ 250.00	
111115	2345678	Little Red School House SD	78901	2006	Internal Connections	UPS		Power Sentry 3000	3-Aug-06	2121212	5-Aug-06	Purple MS 2nd Floor IDF				ABC-IC 003	\$ 250.00	

Additional Information to keep in mind:

- Label all equipment with FRN and FY
- Keep a schematic/network diagram of all equipment and the location in the building(s) including drops/wall jacks
- Maintain records of equipment for at least 5 years
- Keep maintenance details (what equipment has been serviced, the hours spent, who performed the service, date the service occurred)

Transfer of equipment information:

- 3 years after the date of purchase, equipment can be transferred to other eligible entities
- Equipment can be transferred from a closed location to other eligible entities within 3 years of the date of purchase

Revised 12/2007

Service Delivery and Inventory Management

Best practices cont.

- Applicants verify work performed and maintain documentation stating such.
 - When equipment or wiring is installed, applicant performs walk through and documents acceptance of work performed.
 - When maintenance is performed, applicant maintains documentation showing date of maintenance and detail of work performed.
- All documentation is maintained in E-rate binder.

Documentation auditors may request

- High level network diagram
- Inventory of end user computers located in Block 4 entities.
- Maintenance contract(s) for end user computers.
- Professional development training log/curriculum.
- Sign-in/attendance sheets from training sessions.

Common audit findings

- Applicant does not possess, or has not budgeted for the purchase of, a sufficient number of end user computers.
- Applicant did not adequately train staff on the use of funded technologies.
- Applicant did not have the necessary internal connections to effectively use the supported services.
- Applicant does not have adequate electrical capacity to make use of the supported services.

Best practices

- Applicant maintains copies of network diagrams.
- Applicant documents inventory of end user computers in use.
 - This number does not have to be exact, however, it should at least be a good faith estimate. Please note that while performing inventories, auditors may make note of the number of computers in classrooms and administrative offices.
- Applicant maintains a list of the operating systems and software in use on end user computers.
- Applicant maintains copies of staff training agendas, materials and sign-in sheets.
- All documentation is maintained in E-rate binder.

Invoicing, Payments and Reimbursements

Documentation auditors may request

- Customer bills – all pages, not just summaries.
- Support that ineligible charges were removed.
- Proof of payment of non-discounted amounts.
 - Cancelled checks, front and back
 - Bank statements
- Proof of reimbursement from vendor.

Invoicing, Payments and Reimbursements

Common audit findings

- Ineligible items or services invoiced to USAC.
- Billing to the cap – applicant seeks reimbursement for full committed amount, even though they were billed less.
- USAC is invoiced for equipment or services that were not provided or not installed.
- Applicant has not paid its non-discounted share of disbursed funds.
- Applicant or service provider does not maintain adequate records to support the amount invoiced to USAC for equipment or services.

Invoicing, Payments and Reimbursements

Best practices

- Detailed bills – the bills should provide details pertaining to the equipment or services delivered.

aw 1/16/06 CAN

PPSC

Invoice

Date: January 3, 2006
Number: [REDACTED]
Terms: Due On Receipt
Account: [REDACTED]

[REDACTED]

[REDACTED]

Bill To:

Site Location:

[REDACTED]

[REDACTED]

Order#	Technician	PO Number	Tax Group
[REDACTED]	[REDACTED]	[REDACTED]	Non-Taxable

Services Performed:
 Payment due for E-rate project Year 8- [REDACTED]
 FRN# [REDACTED]
 474# [REDACTED]

ENTERED JAN 7 4 2006

Qty	Item Number	Item Description	Unit Price	TOTAL
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Materials: \$0.00
 Labor: \$0.00
 Travel: \$0.00
 Other Charges: \$3,168.42
 Sales Tax: \$0.00
 Additional Tax: \$0.00
 Subtotal: \$3,168.42 ✓
 Deposit: \$0.00

Total Amt Due: [REDACTED]

COMMENTS:

Bad Bill Example

4

Good Bill Example

INVOICE	INVOICE NO.	INVOICE DATE	CUSTOMER PURCHASE ORDER	
	[REDACTED]	08-AUG-07	[REDACTED]	
	REFERENCE NO.	PAYMENT TERMS	DUE ON	CONTRACT NO.
[REDACTED]	Upon Receipt B	07-SEP-07	[REDACTED]	

Bill to Customer > Number: [REDACTED]	SHIP TO CUSTOMER >
[REDACTED]	[REDACTED]

LINE	PRODUCT NUMBER	QTY.	UOM	PRICE	TOTAL
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REPRINT

Parts

1	AIR-ANT1728= 2.4 GHz 5.2 dBi Ceiling Omni Ant. w/RP-T	142	Each	98.261972	13,953.20
2	AIR-CONCAB1200= 1200 Platform Console Cable	142	Each	6.17993	877.55
3	FREIGHT FREIGHT CHARGES	1	Each	0.00	0.00

FOR QUESTIONS REGARDING YOUR ACCOUNT PLEASE CALL Customer Service [REDACTED]
< THANK YOU FOR USING [REDACTED] >
Please return stub with remittance.

SUBTOTAL:	14,830.75
TAX:	0.00
FRN [REDACTED] OF 80%:	(11,864.60)
20% TOTAL DUE:	2,966.15 ←

Please remit to:
[REDACTED]

[REDACTED]

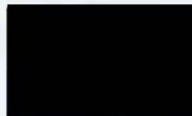
Invoicing, Payments and Reimbursements

Best practices cont.

- All bills are maintained, not just summary pages.
- Applicant performs a reconciliation or verification of all bills received.
 - Shows any ineligible items or services deducted from amount invoiced to USAC.
 - Shows applicant's verification that equipment or services were delivered or installed.

Reconciliation

Month	TN	Ineligible Item	Q	Unit Rat	Total
19-Aug-02		Voice Msg-1st mailbox	1	\$ 19.95	\$ 19.95
		Voice Msg-addl mailbox	3	\$ 5.00	\$ 15.00
		Taxes and Fees		\$ 2.94	\$ 2.94
		# not listed in Dir. Asst.	1	\$ 0.55	\$ 0.55
		Alarm Transport Service	3	\$ 6.00	\$ 18.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	2	\$ 6.00	\$ 12.00
		Addl Directory Listing	1	\$ 0.55	\$ 0.55
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	2	\$ 6.00	\$ 12.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	2	\$ 6.00	\$ 12.00
		Voice Msg- mailbox	2	\$ 10.95	\$ 21.90
		Taxes and Fees	1	\$ 1.84	\$ 1.84
		# not listed in Dir. Asst.	1	\$ 0.55	\$ 0.55
		Voice Msg- mailbox	1	\$ 10.95	\$ 10.95
		Taxes and Fees		\$ 0.92	\$ 0.92
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Voice Msg- mailbox	1	\$ 10.95	\$ 10.95
		Taxes and Fees		\$ 0.92	\$ 0.92
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	1	\$ 7.50	\$ 7.50
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	1	\$ 6.00	\$ 6.00
		Alarm Transport Service	2	\$ 6.00	\$ 12.00
		Alarm Transport Service	1	\$ 7.50	\$ 7.50
					\$ 240.02
		Alarm Transport Service	3	\$ 12.89	\$ 38.67
		Total			\$ 278.69



Telephone Number [Redacted]
 Account Number [Redacted]
 Statement Ending Aug 19, 2002

Your reference number for this account is [Redacted]

MONTHLY SERVICE - REGULATED (Aug 19 to Sep 19)

Description	Qty	Unit Rate	
1 [Redacted] Subscriber Line Credit	1	7.83	CR 7.83
2 [Redacted] station line	1	13.25	13.25
3 Feature package [Redacted]	1	2.00	2.00
4 Interstate Subscriber Line Charge	1	9.20	9.20
Total			\$ 16.62

REGULATED SERVICE TAXES AND SURCHARGES

5 State & Local Sales Tax			1.43
6 [Redacted] 911 excise tax			.35
7 911 State excise tax			.20
8 Funds federal ADA requirement			.14
9 [Redacted] tel assistance prog excise tax			.13
10 Svc Provider Number Portability Fee			.36
11 FED USF-CENTREX			.06
Total			\$ 2.67

[Redacted] regulated charges **\$ 19.29**

MONTHLY SERVICE - NON-REGULATED (Aug 19 to Sep 19)

Description	Qty	Unit Rate	
12 Voice Msg- addl ext mailbox	3	5.00	15.00
13 Voice Msg- 1st mailbox + extension	1	19.95	19.95
Total			\$ 34.95

NON-REGULATED SERVICE TAXES AND SURCHARGES

14 State & Local Sales Tax			2.94
Total			\$ 2.94

[Redacted] non-regulated charges ** **\$ 37.89**

**Non-payment of non-regulated service charges WILL NOT result in the disconnection of your local telephone service.

Total [Redacted] charges \$ 57.18

Invoicing, Payments and Reimbursements

Best practices cont.

- Copies of cancelled checks, or other proof of payment of non-discounted portion, is obtained and maintained.
- All bills are paid in a timely manner - ≤ 90 days.
- Applicant maintains copies of reimbursement check(s) from service provider(s).
 - Bank statements and deposit records.
- All documentation is maintained in E-rate binder.

Other documentation auditors may request

- Copies of all forms and correspondence with USAC.
 - 470
 - 471
 - Item 21 Attachments
 - 472
 - 474
 - 486
 - 500

Other documentation auditors may request cont.

- SPIN change documents
- Appeal documentation
- Service Substitution documentation
- Quarterly Disbursement Reports
- RNL(s), RAL(s), FCDDL(s), 486 notification letter, 500 notification letter, BEAR notification letter, etc.
 - While the documentation sent to PIA is provided to the auditors, auditors prefer to view the original documentation.

Helpful Information

- Code of Federal Regulations (C.F.R.)
 - <http://www.access.gpo.gov/nara/cfr/cfr-table-search.html#page1>
 - Title 47
 - Part 54
 - 54.500 – 54.523

§ 54.508 Technology plans.

(a) *Contents.* The technology plans referred to in this subpart must include the following five elements:

(1) A clear statement of goals and a realistic strategy for using telecommunications and information technology to improve education or library services;

(2) A professional development strategy to ensure that the staff understands how to use these new technologies to improve education or library services;

(3) An assessment of the telecommunication services, hardware, software, and other services that will be needed to improve education or library services;

(4) A budget sufficient to acquire and support the non-discounted elements of the plan: the hardware, software, professional development, and other services that will be needed to implement the strategy; and

(5) An evaluation process that enables the school or library to monitor progress toward the specified goals and make mid-course corrections in response to new developments and opportunities as they arise.

Helpful Information

- Audit information on SLD's website
 - <http://www.usac.org/sl/about/audits/default.aspx>

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About the Schools and Libraries Program:

- Overview of the Program
- Overview of the Process
- Outreach and Training
- Site Visits
- Filing Appeals
- Understanding Audits

Schools and Libraries Tools:

- Apply Online
- Commitments
- Submit a Question
- Latest News
- Calendar/Reminders
- Required Forms
- Reference Area
- Search Tools
- Changes and Corrections
- Suspensions and Debarments
- Program Compliance - Whistleblower Hotline
- Submitting A Complaint

Understanding Beneficiary Audits

The primary purposes of audits are to ensure compliance with FCC rules and program requirements and to assist in the prevention and detection of waste, fraud, and abuse.

When selected for an audit, the auditee's designated contact person will be contacted by a member of the USAC Internal Audit Division. In addition, an announcement letter will be sent to the applicant, with copies sent to all affected service providers, detailing the purpose and scope of the audit, identifying the personnel who will be performing the audit, making a request for pertinent data, and stating the date upon which the data is due.

How beneficiaries can help

- Provide requested documentation in a timely manner
- Ask questions to ensure that you are providing adequate documentation
- Maintain documentation, for five years, for data submitted to USAC

Understanding Audits

- ▶ Demonstrating Compliance
- ▶ E-Rate Binder
- ▶ Audit Fact Sheet
- ▶ Auditors' Observations
 - ▶ IPIA
 - ▶ Round 4
- ▶ Audit Presentations

Helpful Information

- FCC Orders on USAC's website
 - http://www.usac.org/_res/documents/about/pdf/fcc-orders/all-fcc-usf-orders.pdf

Title and Docket(s)	Document Number/Citation	Release Date	Brief Description
Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order.	FCC 97-157 , 12 FCC Rcd 8776 (1997) <ul style="list-style-type: none"> ▪ DA No. 97-157, <i>Errata</i>, 6/14/1997 unavailable online ▪ DA No. 97-2477, <i>Erratum</i>, 12/3/1997, 12 FCC Rcd 22493 (1997) unavailable online 	5/8/1997	“ <i>First Report and Order</i> ”. The FCC implements the mandate for universal service set forth in Section 254 of the Telecommunications Act of 1996; releases the <i>Universal Service Report and Order</i> implementing section 254 of the Act and establishing a universal service support system that became effective on January 1, 1998.
Federal-State Joint Board On Universal Service - Forward Looking Mechanism For High Cost Support For Non-Rural LECS, CC Dockets 96-45, 97-160, Order.	DA No. 97-2538, 12 FCC Rcd 20255 (1997) unavailable online	12/3/1997	Extends to April 24, 1998, the deadline for states to file cost studies for determining the forward-looking cost of providing the services supported by federal universal service support mechanism.
Federal-State Board on Universal Service, CC Docket No. 96-45, Order on Reconsideration.	FCC 97-246 , 12 FCC Rcd 10095 (1997) <ul style="list-style-type: none"> ▪ FCC 97-246 <i>Errata</i> 7/15/97 unavailable online ▪ FCC 97-246 Errata 7/24/97 	7/10/1997	Reconsideration of Schools and Libraries contracts, High Cost corporate expenses, funding for the high cost loop support, FCC USF jurisdiction, review process for carrier petitions for waivers, and monitoring reports.

Helpful Information

- Audit inquiry mailbox
 - auditinquiry@usac.org

Questions?