

Audit Response

Helping You Succeed Schools and Libraries Division

Washington, DC • Newark • Atlanta • Chicago • Orlando • Los Angeles • Portland • Houston

September/October 2009

Overview

- What is Audit Response?
- Roles for All
- Document Retention
- Audit Timeline
- Findings and Other Matters
- Non-compliant Auditees
- Recovery
- Red Light

What is Audit Response?

- Process used by USAC address audit outcomes and take appropriate actions
- Includes follow up with the applicant to try to resolve findings and issues and provide training
- May include recovery of funds
- May include further review of entities' policies and procedures

Roles for All

- **Applicants**
 - Provide answers to questions from auditors; provide copies of documents and other records to auditors; discuss potential findings with auditors; respond in writing to audit report; provide documents to USAC during audit response process.
- **Auditors**
 - Conduct field work; draft findings; discuss findings with applicant; draft audit report; respond to auditee's responses; issue final report.
- **USAC's Audit Response Team**
 - Provides Management responses to potential findings; works with applicant to resolve outstanding findings; runs non-compliant auditee process; works to recover funds for rule violations; provides training to applicant with audit issues.

Document Retention

- Document retention timeframes:
 - 5 years from last date to receive service
 - FY 2010 – this is at least **June 30, 2016**
 - Any document from a *prior year* that supports current year must be kept until 5 years from last date to receive service as well
 - Eg. Contract signed in 2004, used to support FY 2010 FRNs, must be kept until at least **June 30, 2016**

Knowing What to Keep

- Helpful resources to guide retention:
 - [Documentation Retention Requirements](#)
 - [Documentation Checklist](#)
 - [E-Rate Binder Table of Contents](#)
 - [Sample Inventory List/Asset Register](#)

Audit Timeline

- Auditors send notice to applicant of upcoming audit
- Auditors conduct fieldwork and note potential issues
- Auditors work with applicant to resolve issues
- Auditors submit final audit report to USAC
- USAC's Audit Response team works to mitigate findings.

Audit Timeline

- Audit Response process begins:
 - Draft Audit Report received from audit firm
 - USAC Management prepares response
 - USAC Management validates audit findings and comments
- Audit response team makes final determinations

Final Audit Report

- Outlines work that was done
- Explains specific findings
 - Rule violations vs procedural issues
- Includes Other Matters/Comments
- Includes Auditee's response
- Includes USAC Management Response

Findings

- Findings are generally rule violations or severe internal control weaknesses
- Findings may require recovery of funds
- Common findings include:
 - CIPA violations
 - Technology Plans
 - Ineligible Entities and Services
 - Competitive Bidding
 - Discount Calculation

Types of Findings

Rule Violations

- Equipment cannot be located or in ineligible locations
- Discount rate can't be supported
- Contract prior to end of 28-day period
- Applicant didn't pay their share

Procedural issues

- Asset listing was not maintained, equipment not at site listed on 471
- Applicant did not retain copies of documentation used to complete 471

Other Matters/Comments

- Other Matters/Comment are generally immaterial noncompliance with FCC Rules, internal controls documentation issues etc.
- May or may not require recovery
- Common examples:
 - Eligible entities not listed on Form 471
 - Errors in urban or rural classification that did not change the discount percentage
- Issues may become findings in the future

Audit Response Outcomes

- Audit Response Team reaches out to applicant to try to resolve issues identified by auditors
- Findings are resolved
 - Applicant or service provider provide documentation not available during audit
 - Finding is addressed and closed out
- Findings are **not** resolved
 - Recovery of funds for rule violations begins

Non-compliant Process

- Entity is deemed Adverse (non-compliant) based on the auditors opinion of the applicants assertion that they complied with program rules
- USAC holds all pending funding & invoices
- USAC issues letter to applicant requesting revised procedures to mitigate audit findings
- Applicant has 6 months to respond to letter

Non-compliant Process

- Applicant revises relevant procedures to ensure audit findings don't recur
- USAC reviews response
 - Applicant responds and USAC accepts revisions
 - USAC releases held funding
 - Applicant fails to respond in time
 - Pending funding requests are denied
 - Pending invoices are denied

Types of Recovery

- Commitment Adjustment (COMAD)
 - Commitment was incorrect
 - Total funding commitment must be reduced
 - May or may require recovery of funds
- Recovery of Improperly Disbursed Funds (RIDF)
 - Commitment was correct
 - However, funds were not used as stated on application
 - Commitment not changed, but always involves recovery of funds

COMAD vs RIDF examples

COMAD

- Commitment must be reduced
 - Eg. Commitment included a closed entity
 - Overall commitment is adjusted down to remove the funding for closed entity
 - If new, lower commitment amount is less than total disbursed amount, then USAC will recover difference

RIDF

- Invoice payment was bad but commitment was OK
 - Eg. Invoiced for services that were not delivered
 - Commitment stays same
 - USAC seeks recovery of amount paid for ineligibles
 - Applicant/SP later invoice for correct use of all funds for approved products and services

Who's at Fault?

Applicant

- Something in the applicant's control
 - Competitive bidding
 - Insufficient resources
 - Discount calculations
 - Technology Plans
 - Failure to pay non-discount share
 - BEAR amount greater than actually paid to SP

Service Provider

- Something in the SP's control
 - Didn't deliver services
 - Didn't bill for services delivered
 - Provided ineligible services
 - SPI amount greater than services delivered

Recovery Timeline

- Day 0
- USAC issues Commitment Adjustment Letter (CAL)
 - Indicates specific FRN, dollars, reason
 - Can be appealed to USAC and/or FCC
 - USAC lowers FRN commitment
 - **If no recovery, end of process**
 - USAC determines who is at fault (applicant or SP or both)
 - If new committed amount is less than disbursed amount, then cash recovery is necessary

Recovery Timeline

- Day 61
 - USAC issues Demand Payment Letter
 - “Invoice” from USAC to repay funds disbursed
 - Will be addressed to applicant or SP, or both, depending on who is at fault
 - Not an appealable letter (appeal the CAL)
- Day 91
 - USAC issues 2nd Demand Payment Ltr
 - USAC turns on Red Light
- Day 150
 - USAC transfers debt to FCC/Treasury

Red Light

- Entities that are delinquent in their debts to USAC have their “Red Light” turned on
- Tied to your Tax Payer ID (TIN)
- Applicants:
 - All pending applications and appeals are held for 30 days, then denied if debt is not paid
 - BEAR payments are held
- Service Providers
 - Service Provider Invoices are held

Post-Audit Training

- All audit finding get outreach so you can avoid the problem
 - Explain the problem
 - Show tools that are available to help you avoid the problem again
 - May invite you for a HATS visit
 - May also follow up on corrective action applicant identified in your management response

Questions?