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## Audit News Brief Series – Overview and Discount Calculations

June 29, 2009

This is the first in a series of three short News Briefs dedicated to issues identified during the Improper Payments Information Act (IPIA) Round 2 beneficiary audits. In this series, we will provide guidance to beneficiaries with respect to Schools and Libraries Program (Program) audit compliance. The primary purposes of these audits are to ensure compliance with Federal Communications Commission (FCC) rules and Program requirements and to assist in the prevention and detection of waste, fraud, and abuse.

### OVERVIEW

There were four subject areas where audit findings and comments from IPIA Round 2 audits were most common – Discount Calculations, Document Retention, Eligible Services, and Technology Plans.

- In this Overview, we list the most common findings from across all of the Round 2 IPIA audits.
- We then summarize the requirements for each of the four subject areas where the findings occurred and provide hyperlinks to additional information on the USAC website.

The findings and comments from these audits are summarized in [Understanding Audits](#).

An audit **finding** identifies a Program rule violation. Examples of Program rule violations include:

- Applicant did not retain documentation to support the discount calculation.
- Applicant did not conduct an open and fair competitive bidding process.
- Applicant invoiced USAC for services that were not delivered.

In general, an audit **comment** identifies a situation where, even if a Program rule was not violated, good accounting practices are not being followed. Examples of comments include:

- Applicant's asset listing was not kept up to date, even though the applicant was able to locate the equipment purchased with Program funds.
- Applicant either did not have a document retention policy or the existing document retention policy did not require that records be kept for five years, regardless of whether the applicant was able to provide all documents during the audit.
- Applicant did not perform an invoice reconciliation (i.e., applicant did not compare customer bills to invoices submitted to USAC and reconcile or resolve any discrepancies).

Following is a list of the most common findings or comments pertaining to each of the four subject areas. Findings are denoted with an (F) and comments are denoted with a (C).

#### 1. Discount Calculations

- Entities did not properly apply the discount to the pre-discount cost. (F)
- The discount calculation could not be verified. (F)
- The exact data used to calculate the discount could not be provided, but the overall discount was verified. (C)

#### 2. Document Retention

- No documentation was retained to support the discount calculation. (F)
- Equipment purchased with program funds could not be located. (F)
- Customer bills were not available to support invoices submitted to USAC (Form 472 and/or Form 474). (F)
- Consortium leaders could not locate Letters of Agency and/or Forms 479 for all consortium members. (F)
- Applicants did not follow their own document retention policy or did not have a policy. (C)
- Asset registers were incomplete or not maintained. (C)

### 3. Eligible Services

- USAC was invoiced by applicants and/or service providers for ineligible equipment and/or services. (F)

### 4. Technology Plans

- The technology plan was deficient (in other words, it did not adequately address the five required elements). (F)
- The technology plan was not approved. (F)
- The technology plan was not written (created) prior to filing Form 470. (F)

From the information above, you can see that maintaining complete and accurate records and carefully following Program rules can help demonstrate compliance during an audit.

## DISCOUNT CALCULATIONS

All applicants that apply for Program support for eligible services must [calculate the discount](#) that the schools or libraries requesting support are eligible to receive.

### Discounts for Individual Schools

An individual school's discount is calculated by using:

- The percentage of students eligible for free or reduced lunches under the National School Lunch Program (NSLP) or a federally approved alternative mechanism, and
- The school's [urban or rural](#) status.

A school can use certain [alternative discount methods](#) instead of NSLP to determine the level of poverty, as long as those methods are based on – or do not exceed – the same measure of poverty used by NSLP, which is 185% of the federal poverty guideline.

The school can determine its discount by carrying these two pieces of information into the [Discount Matrix](#).

### Discounts for School Districts

If the individual schools in a school district will share a service, their shared discount is the weighted average of the discounts of the individual schools in that district (based on the number of students).

### Discounts for Libraries

A library outlet or branch calculates its NSLP percentage by dividing the total number of students eligible for NSLP in the school district in which it is located by the total number of students in that school district. It also must determine if its location is [urban or rural](#) and use the Discount Matrix as described above.

### Discounts for Library Systems

If the individual library outlets/branches in a library system will share a service, their shared discount is the average of the discounts of the individual library outlets/branches.

### Discounts for Consortia of Schools and/or Libraries

The discount for a consortium is the average of the discounts of all its members, whether they are individual schools, library outlets/branches, school districts, or library systems.

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