

E-rate Program Applicant Training

Audit: Successful Program Participation

October – November 2015

Washington DC • Tampa • Albuquerque • Minneapolis • New Orleans • Los Angeles • Philadelphia • Portland

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 (formerly IPIA and IPERA) – 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.

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

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

Improved Audit Process

Attribute	The Old	The New
Audit Period	<ul style="list-style-type: none"> Historical 	<ul style="list-style-type: none"> Current disbursements (Funding Year 2015)
Audit Scope	<ul style="list-style-type: none"> Full scope audits 	<ul style="list-style-type: none"> Full Scope and Limited Scope Audits (shorter audit duration)
Analyzing Results	<ul style="list-style-type: none"> High-level common audit findings 	<ul style="list-style-type: none"> Robust trending of audit findings Using beneficiary feedback for audit process improvement
Applicant Engagement	<ul style="list-style-type: none"> “One-size fits all” approach 	<ul style="list-style-type: none"> Less burden on smaller applicants Use of E-rate Productivity Center (EPC)

What is the process?



May not be required on every audit



- Audit announcement
 - Includes request for information (2 week turnaround)
 - Includes an internal control questionnaire
 - These are questions designed to assist with audit testing
- Entrance conference

Requests for Documentation

- The auditors request 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
 - Documentation uploaded to E-rate Productivity Center (EPC) reduces burden and minimize disruption
- 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>.



- 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)

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 provided with the announcement package
- Auditors conduct additional process inquiries, as necessary

Site Visits

- Site visits are often performed at beginning of 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

Purpose of the Site Visits

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

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

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

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

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
- 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

Eligibility for Schools, School Districts, or Consortia Containing Schools or School Districts (cont.)

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

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

Eligibility for Schools, School Districts, and Libraries

- Documentation demonstrating the Beneficiary is operating as a not-for-profit
 - IRS determination letter
 - Federal Form 990 return
 - Audited financial statement footnotes identifying the Beneficiary's tax-status

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
- For libraries and consortia containing libraries, square footage floor plans as submitted to the LSTA

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*

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 is non-operational, documentation demonstrating the Beneficiary has the necessary resources to make effective use of the equipment (e.g. repair and maintenance requests or agreements)
- If equipment has been uninstalled or removed, documentation demonstrating why and current location

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

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)

CIPA (cont.)

- 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 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

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
- Reconciliation between the eligible services billed and the services invoiced on the BEAR
- Documentation demonstrating the reimbursement or credit for the funded services has been received

Avoid Common Findings – Lack of Documentation

- Ensure procedures are designed to protect and maintain documentation in the event of employee turnover
- Do not rely solely on a third-party to maintain documentation (e.g., the State to maintain NSLP data)

Avoid Common Findings - Eligibility

- Residential area does not serve a unique population, as defined by the FCC's Sixth Report & Order
 - No allocation of use, such as numbers of floors served, square footage served, bandwidth utilized, etc.
- E-rate funds supported Pre-Kindergarten (Pre-K) students in a state where Pre-K students were not eligible

Avoid Common Findings – CIPA Violations

- No public notice made to discuss the Internet Safety Policy (ISP) or Acceptable use Policy (AUP)
- Public hearing to discuss ISP or AUP was not held
- ISP or AUP does not adequately address the elements required by CIPA
 - E.g., policy restates rule but does not address how students are monitored and protected

Avoid Common Findings – Competitive Bidding

- Did not select the most cost-effective service provider
 - Price criteria included ineligible services
 - No support why a bid was not considered
 - Cost of service was substantially more than other bids for comparable services and not cost-effective
 - FCC 03-313, 18 FCC Rcd 26406 (2003), at 53 and 54
 - Evaluations were not conducted in accordance with the RFP requirements

Avoid Common Findings – Services Billed by Service Provider

- Beneficiary did not pay its non-discounted share within 90 days of service
 - No evidence of bill disputes, late receipt of bills, etc.

Avoid Common Findings – Services Invoiced to SLP

- SLP was invoiced for ineligible services
 - Invoice did not exclude ineligible services
 - Services invoiced do not agree to the service and/or quantity in the Item 21 Attachment
 - Services used for ineligible purposes
 - Invoice did not allocate and remove the ineligible portion of services

Avoid Common Findings – Category 2

- Equipment not installed or non-operational
- Beneficiary did not notify SLP of equipment that was transferred within three years of installation
- Lack of documentation demonstrating that BMIC services were performed
- Insufficient or inaccurate Fixed Asset Listing
 - See asset register example at <http://www.usac.org/res/documents/sl/pdf/samples/samples-checklist-inventory-list.pdf>



- 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

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

Audit Reports

- Audit reports are approved by the Schools and Libraries Committee of the Board of Directors quarterly
- The internal review process is time consuming (approximately two months)
 - Audits that are not reviewed in time for the upcoming Board of Directors meeting are scheduled for the next quarter
- The Board may ask the auditors for additional information, which may require the auditors to conduct follow-up with the Beneficiary

Audit Reports

- The final audit report will be provided to the Beneficiary within one week following approval by the Board
- 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.

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

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			

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					

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

QUESTIONS?

Thank you!