



Rural Health Care Committee

Audit Briefing Book

Monday, April 29, 2019

Universal Service Administrative Company Offices

700 12th Street, N.W., Suite 900

Washington, D.C. 20005

Summary of Rural Health Care Support Mechanism Beneficiary Audit Report Released: January 2, 2019 – January 31, 2019

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
North Carolina Telehealth Network (NCTN) Attachment A	1	<ul style="list-style-type: none"> Beneficiary and Service Provider Over-Invoiced RHCP for an Unapproved Service Substitution. The Beneficiary and Service Provider invoiced RHCP for services that were substituted to replace the services requested on the Beneficiary's FCC Form 462, without requesting a service substitution. 	\$2,674,531	\$10,272	\$10,272	\$0	Y
Total	1		\$2,674,531	\$10,272	\$10,272	\$0	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or there are multiple findings within an audit that have overlapping exceptions between them.



Universal Service
Administrative Co.

North Carolina Telehealth Network (NCTN)

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Rural Health Care Support Mechanism
Healthcare Connect Fund Program Rules
USAC Audit No. RH2016HC003

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EXECUTIVE SUMMARY

September 14, 2018

Dr. William Pilkington, Director
North Carolina Telehealth Network
300 Mooresville Road
Kannapolis, NC 28081

Dear Dr. Pilkington:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of North Carolina Telehealth Network (Beneficiary), Health Care Provider Number (HCP) 17235, using the regulations and orders governing the federal Universal Service Rural Health Care Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, the type and amount of services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding (Finding) discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

We appreciate the cooperation and assistance extended by you and your staff during the audit.

Sincerely,

 on behalf of

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Mark Sweeney, USAC Vice President, Rural Health Care Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: 47 CFR § 54.646 (2015)–Beneficiary and Service Provider Over-Invoiced RHCP for an Unapproved Service Substitution. The Beneficiary and Service Provider invoiced RHCP for services that were substituted to replace the services requested on the Beneficiary’s FCC Form 462, for which there was no service substitution request.	\$10,272	\$10,272
Total Net Monetary Effect	\$10,272	\$10,272

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results and will seek recovery jointly and severally from the Beneficiary and the service provider, MCNC, of the Rural Health Care Program (RHCP) support amount noted in the chart below.

	FRN 15631201	USAC Recovery Action	Rationale for Difference (if any) from Auditor Recommended Recovery
Finding #1	\$10,272	\$10,272	n/a
Total	\$10,272	\$10,272	

The Beneficiary asserts in its Response that FCC rules say “when site and service substitutions ‘may’ be used (and not when they ‘must’ be used).” “May” is used in 47 C.F.R. § 54.646(a) to introduce the requirements of the consortium leader or HCP requesting the site and service substitution. As explained in Paragraph 314 of the HCF Order, the policy of permitting site and service substitutions “is a more administratively efficient approach than the Primary Program, in which any modification of funding requires a new application and a new funding commitment letter for each HCP impacted.”¹ Thus, the site and service substitution process or a new funding request is necessary for making changes to services on commitments already approved in the Healthcare Connect Fund Program. USAC management confirms that a consortium cannot submit a site and service substitution for months already billed.

¹ *Rural Health Care Support Mechanism*, WC Docket No. 02-60, Report and Order, 27 FCC Rcd 16678, 16803, para. 314 (2012) (*Healthcare Connect Fund Order*).

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

The purpose of the audit was to determine whether the Beneficiary complied with the Rules.

SCOPE

The following chart summarizes the Rural Health Care Program Healthcare Connect Fund support amounts committed and disbursed to the Beneficiary for Funding Year 2015 (audit period):

Service Type	Amount Committed	Amount Disbursed
Leased Facilities or Services	\$10,174,344	\$2,674,531
Total	\$10,174,344	\$2,674,531

Note: The amounts committed and disbursed reflect funding year activity as of the commencement of the audit.

The committed total represents three FCC Form 462 (Funding Request Form) applications with three Funding Request Numbers (FRNs). AAD selected two FRNs,² which represent \$9,922,992 of the funds committed and \$2,644,458 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2015 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary provides a wide variety of broadband services for public and non-profit health care providers (HCPs) throughout the state of North Carolina.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Rural Health Care Program Healthcare Connect Fund (HCF). Specifically, AAD examined documentation the Beneficiary used to support its effective use of funding and assessed whether adequate controls existed to ensure that funds were used in accordance with the Rules. AAD used inquiry and inspection of the documentation provided to determine whether the Beneficiary used funding as indicated in its Network Cost Worksheets (NCWs).

AAD examined the documentation to determine whether the Beneficiary's lead entity and/or Project Coordinator obtained Letters of Agency from the Beneficiary's network of HCPs and the HCPs' health systems authorized the Beneficiary's lead entity and/or Project Coordinator to act on their behalf. AAD also reviewed the documentation to confirm the HCPs' agreement to participate in the network; the specific timeframe covered by the Letter of Agency; and the type of services covered by the Letter of Agency.

² The FRNs included in the scope of this audit were: 15631201 and 15721451.

AAD examined the FCC Form 462 applications and the FCC Form 462 Attachments to determine whether the Beneficiary identified the participating HCPs and documented the allocation of eligible costs related to the provision of health care services. AAD also examined the NCWs to determine whether ineligible costs, if any, were identified and whether ineligible entities, if any, paid their fair share.

AAD obtained an understanding of the Beneficiary's processes relating to the Rural Health Care Program. Specifically, AAD examined documentation provided by the Beneficiary to support its effective use of funding and assessed whether adequate controls existed to ensure funds were used in accordance with the Rules. AAD used inquiry and inspection of the documentation to determine whether the Beneficiary had the necessary resources to support the services for which funding was requested.

B. Eligibility

AAD used inquiry and inspection of documentation, and examined documentation to confirm that the Beneficiary's eligible HCPs were public or non-profit eligible health care providers. AAD examined documentation to determine whether more than 50 percent of the eligible HCP sites were located in rural areas and verify that the eligible HCPs' physical addresses were the same as those listed on the FCC Form 462 applications. AAD conducted inquiry and examined documentation to determine whether the HCPs participating in the HCF Program were not receiving funding for the same services under the Telecommunications Program.

AAD used inquiry and inspection of documentation to ensure that ineligible entities, if any, were properly reported on the FCC Form 462 Attachments and that the Beneficiary allocated an appropriate share of costs between eligible and ineligible entities.

C. Invoicing Process

AAD examined invoices for which payment was disbursed by the RHC Program to determine whether the services identified on the FCC Form 463 (Invoice and Request for Disbursement Form) service provider invoices submitted to the RHC Program and the corresponding service provider bills submitted to the Beneficiary were consistent with the terms and specifications of the service provider agreements. AAD examined documentation to determine whether the Beneficiary provided proper notice of the services' initiation to the FCC and USAC. In addition, AAD examined documentation to determine whether the Beneficiary or another eligible source paid the required 35 percent minimum contribution. AAD also examined documentation to determine whether the RHC Program disbursements exceeded 65 percent of the total costs.

AAD examined invoices for which payment was disbursed by USAC to determine whether the services identified on the service provider invoices submitted to USAC and the corresponding service provider bills submitted to the Beneficiary were consistent with the terms and specifications of the service provider agreements. AAD examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Reporting Process

AAD examined documentation to determine whether the Beneficiary timely submitted its annual reports to the RHC Program and that the reports included the required information. AAD examined the Sustainability Plan and Network Plan to determine whether they included the required content.

E. Health Care Provider Location

AAD assessed through inquiry and inspection of documentation whether the services provided existed and were functional. AAD also assessed through inquiry and inspection of documentation whether the supported services for eligible HCPs were used for purposes reasonably related to the provision of health care services and in accordance with the Rules.

DETAILED AUDIT FINDING

FINDING #1: 47 C.F.R. §54.646 (2015) – Beneficiary and Service Provider Over-Invoiced RHCP for an Unapproved Service Substitution

CONDITION

AAD obtained and examined documentation, including the FCC Form 462 Healthcare Connect Fund Funding Request Form, FCC Form 463 Invoice and Request for Disbursement Form, the relevant contract, and the corresponding service provider bills provided by the Beneficiary to determine whether the Rural Health Care Program (RHCP) was invoiced only for approved, eligible services for FRN 15631201. AAD determined that the Beneficiary and Service Provider over-invoiced RHCP for services that were substituted to replace the services requested on the Beneficiary's FCC Form 462 Attachment, and the Beneficiary did not request a service substitution.³

On the Beneficiary's FCC Form 462 Attachment, the Beneficiary requested and was approved for 20 Mbps of Ethernet service for the Davidson County Health Department at a monthly pre-discounted cost of \$1,713. Per the Beneficiary's contract with its service provider, MCNC, the monthly pre-discounted cost for 10 Mbps of Ethernet service is \$1,317. MCNC billed the Beneficiary for 10 Mbps of Ethernet service at a monthly pre-discounted cost of \$1,713. The 10 Mbps of Ethernet service was not requested on the FCC Form 462 Attachment or approved in the Funding Commitment Letter. The Beneficiary did not submit a service substitution request for the 10 Mbps of Ethernet service received by the Beneficiary to replace the 20 Mbps of Ethernet service requested on the Beneficiary's FCC Form 462 Attachment and approved in the Funding Commitment Letter. As such, the 10 Mbps of Ethernet service that was billed to the Beneficiary and invoiced to RHCP was not an approved, eligible service. Thus, the Beneficiary and Service Provider over-invoiced RHCP by \$13,361 ((annual pre-discounted cost of 10 Mbps of Ethernet service billed at \$1,713 monthly totaling \$20,556) * (65 percent discount rate)).

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing service substitutions as the Beneficiary did not understand that services invoiced to RHCP must only be for approved, eligible services. The Beneficiary informed AAD that it intended to upgrade its services from 10 Mbps to 20 Mbps of Ethernet for Davidson County Health Department, however, MCNC did not upgrade the services but charged the Beneficiary for the price of the upgraded services during the Funding Year.⁴

EFFECT

The monetary effect for this Finding is \$10,272. This amount represents the difference in the amount of funds disbursed by RHCP for the unapproved service and the amount of funds reimbursed to RHCP by the Service Provider (\$13,361 - \$3,089). MCNC remitted payment to RHCP for \$3,089, which is the difference between the discounted annual amount billed to the Beneficiary for the services provided (\$20,556 * 65 percent discount rate) and the discounted annual contracted amount of the services provided (\$15,804 (\$1,317 * 12 months) * (65 percent discount rate)).

³ See 47 CFR § 54.646 (2016); *Rural Health Care Support Mechanism*, WC Docket No. 02-60, Report and Order, 27 FCC Rec. 16678, 16804, para. 305 (2012).

⁴ Email to AAD from Tracy Olson, Program Manager for North Carolina Telehealth Network (June 19, 2017).

RECOMMENDATION

AAD recommends USAC management seek recovery of the amounts identified in the Effect section above. The Beneficiary and Service Provider must implement controls and procedures to ensure RHCP is invoiced only for approved, eligible services that are requested on the FCC Form 462, including the FCC Form 462 Attachment, and committed in a Funding Commitment Letter or approved in a service substitution request. In addition, the Beneficiary must submit a service substitution request to RHCP when the eligible services provided by the Service Provider are not the same as the services specified in the FCC Form 462 Attachment.

BENEFICIARY RESPONSE

We agree with the detailed audit findings with two exceptions:

1. Regarding: [A]AD determined that the Beneficiary and Service Provider over-invoiced RHCP for services that were substituted to replace the services requested on the Beneficiary's FCC Form 462 Attachment, and the Beneficiary did not request a service substitution.
2. Regarding: The Beneficiary did not demonstrate sufficient knowledge of the Rules governing service substitutions as the Beneficiary did not understand that services invoiced to RHCP must only be for approved, eligible services

We understand and agree with the principle that USAC discounts should only be used for the approved services. However, it does not seem to us that the regulation text offered with the audit finding speaks to this principle clearly. Specifically, 47 CFR § 54.646 says when site and service substitutions "may" be used (and not when they "must" be used). Given that the audit finding contention is that we did not use a site and service substitution when we were required to do so, this seems relevant to us. We respectfully request USAC to provide regulation text that more directly speaks to the issue at hand. We also request that the USAC response also clarify whether we could have submitted a site and service substitution for months that were already billed.

We do find the USAC audit process very helpful in providing valuable third-party scrutiny of our processes and controls. The 2016 USAC audit went very smoothly and we were able to work closely with the USAC auditing team to provide the requested details and resolve any questions. We are appreciative of the professionalism of the USAC audit team in the last couple of years while the audit was underway.

We believe that the resolution that had already been reached with USAC on this issue is still appropriate and that a site and service substitution was not possible under the circumstances. A chronological history of relevant events may help in understanding this point of view:

1. Davidson County HD received funding on the RHCPP program for a 10mbps service.

2. In preparation for an upgrade to 20mbps, we requested funding under the HCF program under FRNs 14589481 (funding year 2014) and 15631201 (funding year 2015) for a 20mbps service.
3. In July 2015, HCF funding was approved for both funding requests. We began invoicing USAC and the subscriber at the price for the 20mbps service under the misunderstanding that the 20mbps service was installed. We have multiple controls in place to ensure that this type of misunderstanding doesn't occur again, including:
 - A. We track services by a unique service instance identifier in the MCNC implementation and invoicing spreadsheet and review the accuracy and status of this implementation data each week.
 - B. When funding is secured, we report by the unique service instance identifier and include specific action items for services that need to be implemented after funding is reserved.
 - C. The subscriber invoice is switched to the upgraded speed after implementation is confirmed by MCNC, reviewed in a weekly call, and the bandwidth speed is confirmed.
 - D. During the USAC invoicing process, we validate that the speed on the MCNC invoice matches the speed on our internal records.
4. On 6/12/17, the USAC auditor questioned a discrepancy between the service speed on the invoice (10mbps), the service speed on the funding request (20mbps) and noted that the price being charged was for the 20mbps service.
5. Upon researching the discrepancy, we discovered that the service was never upgraded from 10mbps to 20mbps. This is the first time we were aware that the service had not been upgraded.
6. After consulting with USAC as to the appropriate procedure to reconcile this error, we reimbursed USAC for the USF Support difference between the two service speeds and the check was cashed by USAC on 7/8/17. This included services through the bill end date 5/31/17. The USAC auditor confirmed that everything looked good. While this process followed the principle of billing for services provided, we did not do a site and service substitution because it is not possible to submit a site and service substitution for service months that have already been invoiced to USAC. Site and service substitutions may only include months that have not yet been billed. The only way to reconcile the months that have already been billed is to follow the USAC RHP Payment Identification (PID) Worksheet process.
7. On 8/22/18, we received the detailed audit findings from the USAC auditor. This is the first time we were told that the USAC auditors felt that we should have followed a site and service substitution process. The two applicable funding requests are now closed making a site and service substitution not possible.

Given the history of this issue as described above, we respectfully request that USAC reconsider the monetary aspect of the finding and agree that the amount already paid

as part of our prior collaboration with USAC on this issue be considered appropriate to resolve this finding.

AAD RESPONSE TO BENEFICIARY RESPONSE

AAD is also appreciative of the professionalism and cooperation of the Beneficiary during the duration of the audit and the Beneficiary's prompt responses to our audit inquiries.

AAD does not concur with the Beneficiary's statement that "...the amount already paid as part of our prior collaboration with USAC on this issue be considered appropriate to resolve this finding." The Beneficiary requested and was approved for 20 Mbps of Ethernet service but received and invoiced RHCP for 10 Mbps of Ethernet service. The Beneficiary invoiced RHCP for the approved service which was not received at Davidson County Health Department. In addition, the Beneficiary states in its response that "... [W]e did not do a site and service substitution because it is not possible to submit site and service substitution for service months that have already been invoiced to USAC." However, the Beneficiary should have submitted a service substitution request prior to invoicing RHCP. Although the Beneficiary was made aware of the error during the audit and after invoicing RHCP for the approved service, the Rules state that before any invoice is sent to USAC, both the HCP and service provider must certify that they have reviewed the document and that it is accurate.⁵ Because the invoice submitted to RHCP was not accurate and a service substitution request was not submitted and approved, the Beneficiary ultimately received funding for an ineligible service.

Furthermore, the Beneficiary states that it "...consult[ed] with USAC as to the appropriate procedure to reconcile this error [and] reimbursed USAC for the USF Support difference between the two service speeds... The USAC auditor confirmed that everything looked good." However, the Beneficiary informed AAD on September 25, 2018 that it did not consult with RHCP about a procedure to reconcile this error, nor did the Beneficiary consult with AAD. On June, 20, 2017, the Beneficiary emailed a spreadsheet to AAD which reconciled the difference between the amounts that were billed and invoiced to RHCP for the 20 Mbps of Ethernet service and the amounts of the 10 Mbps of Ethernet services that were actually received.⁶ The spreadsheet also included the next steps that the Beneficiary was going to take to resolve the issue. However, AAD did not confirm that reimbursing RHCP for the difference between the amounts of the unapproved service and the service that was actually received by the Beneficiary would satisfy the invoicing error. As noted in the Condition section above, the Beneficiary was billed and RHCP was invoiced for an unapproved, ineligible service. For these reasons, AAD's position on this Finding remains unchanged.

SERVICE PROVIDER RESPONSE

The experience with the NCTN request for upgrade of Davidson County Health Department connection points to the need for careful coordination between NCTN administrator, MCNC, and MCNC's subcontractors. Therefore, a formal process has been developed between MCNC and NCTN Administrators and MCNC and MCNC contractors (i.e. North Carolina Department of Information Technology) to assure that requested upgrades or technical changes are in fact being fully implemented and that invoices that charge for these changes are submitted only after the changes are made. With this in mind, MCNC has made the following changes and process enhancements:

⁵ See 47 C.F.R. § 54.645 (2015).

⁶ Email to AAD from Tracy Olson, Program Manager for North Carolina Telehealth Network (June 20, 2017).

- 1) The NCTN Administrator tracks sites that require upgrades or technical changes and are pending funding. The status of these sites regularly reviewed in bi-weekly team meetings, which include NCTN and MCNC representatives.
- 2) Once notified of approved funding, the NCTN Administrator sends an email to the MCNC contact documenting that a contract is ready to proceed, that funding has been approved for the requested upgrades or technical changes, and that implementation can begin.
- 3) Upon receipt of this email, MCNC creates an internal "ticket" to document the request and kickoff the implementation process.
- 4) With the tracking ticket created, MCNC either begins implementation of the install/upgrade or provides direction to our subcontractor to organize and undertake the required install or modifications.
- 5) MCNC will track our work or the work of the subcontractor via the ticket and updates the NCTN administrator of the project status weekly.
- 6) Once MCNC and/or the subcontractor has tested the site to confirm the connection is complete and the circuit is performing at the designated speed, the ticket is closed and MCNC notifies the NCTN administrator the job is complete.

CRITERIA

Finding	Criteria	Description
#1	47 CFR § 54.646 (2016).	<p>(a) A Consortium Leader (or health care provider, if participating individually) may request a site or service substitution if:</p> <ol style="list-style-type: none"> (1) The substitution is provided for in the contract, within the change clause, or constitutes a minor modification; (2) The site is an eligible health care provider and the service is an eligible service under the Healthcare Connect Fund; (3) The substitution does not violate any contract provision or state, Tribal, or local procurement laws; and (4) The requested change is within the scope of the controlling request for services, including any applicable request for proposal used in the competitive bidding process. <p>(b) Support for a qualifying site and service substitution will be provided to the extent the substitution does not cause the total amount of support under the applicable funding commitment to increase.</p>
#1	47 CFR § 54.645 (2016). <i>Rural Health Care Support Mechanism</i> , WC Docket No. 02-60, Report and Order, FCC 12-150, 27 FCC Rcd 16678, 16804, para. 305 (2012).	<p>(a) The Consortium Leader (or health care provider, if participating individually) must certify to the Administrator that it has paid its contribution to the vendor before the invoice can be sent to Administrator and the vendor can be paid.</p> <p>(b) Before the Administrator may process and pay an invoice, both the Consortium Leader (or health care provider, if participating individually) and the vendor must certify that they have reviewed the document and that it is accurate. All invoices must be received by the Administrator within six months of the end date of the funding commitment.</p>