The FCC approved the ICN relationship and network structure by making the initial pilot program award. When later there became a possibility of supported bridge funding for circuit fees, IRHTP disclosed all relationships and followed the competitive bidding rules. The USAC auditors would apparently only be satisfied if another vendor for that contract had materialized and prevailed, and that was not something IRHTP had any control over. The reasons why other vendors did not materialize are apparent and have been explained. Holding IRHTP financially responsible for the bidding results it did not preordain or control is manifestly unfair.

- Because the ICN was the entity that formed the backbone of the state fiber network, the ICN's knowledge of its network and access to that network was imperative for the success of the IRHTP pilot project. As discussed in this submission and affidavit, the IRHTP firewall as to vendors for particular follow-up RFPs was utilized throughout the RFP process. IRHTP in good faith believes that its processes prevented any improper influence or competitive advantage in any bidding process or bid award.

- The IRHTP firewall was utilized when Access Integration Specialists (AIS) was bidding on the RFPs for Quality Assurance. AIS was not involved in the development of these RFPs. AIS' role with the IRHTP was as a consultant with experience and knowledge of the technical details of the ICN and AIS' role with ICN was as an independent contractor consultant to provide program manager support on an "as-needed" hourly basis. An Internet seach [*sic*] shows that AIS is a communications consulting firm with Anthony Crandell as its principal. Mr. Crandell has indicated his client list includes Iowa Homeland Security, Iowa National Guard, Cherokee Community School District, among others.

- All relationships between the parties were fully disclosed in all documentation provided to USAC and the FCC. IRHTP enacted protocols to ensure there was no improper influence or competitive advantage during the request, bidding, or awarding process. Bids were awarded based on the most cost-effective awards offered by providers with relevant capabilities and expertise and nothing else. USAC's audit finding comes to erroneous conclusions in its review of the information presented. IRHTP respectfully disagrees with USAC's Internal Audit finding and asks that on USAC Management review, the conclusions and recommendations be altered to reflect the facts in this case. Certainly [*sic*] the proposal that funds be recouped cannot

stand given that there was a firewall in place. To the extent that USAC auditors believe that the FCC rules provide detailed notice as to what constitutes a sufficient firewall in this instance, IRHTP contends that that determination is arbitrary and capricious and will not survive review by the FCC.

The USAC auditor conclusions cannot and do not include any finding that the program was asked to fund excessive costs or that any vendor receiving an award that is questioned now lacked relevant experience or knowledge. Nor have the USAC auditors done anything beyond merely suggesting there could have been some prejudice to other potential bidders from what they assert was an insufficient firewall. The punitive nature of an action to recoup funds for services provided would be inequitable, particularly given that the ICN's historic and unique state role was disclosed and on the record at the FCC from the time IRHTP filed its application for pilot program funding in May 2007. USAC was well aware of ICN's unique position as a statewide state owned backbone and connectivity provider. It was also aware from reviewing and commenting on IRHTP's Sustainability Report in 2009 that IRHTP was assuming the use of ICN for network access and USAC knew that ICN had had a long term role with IRTHP [*sic*] starting with the FCC Pilot program. To seek full recoupment of the circuit fee discount and quality assurance discount under these circumstances, where IRHTP in good faith attempted to comply with competitive bidding rules and fully disclosed what it was doing and how it was doing it, would be inequitable.

USAC IAD Response

In its response, the Beneficiary states that "[t]he FCC rules, combined with these [FCC] orders, simply do not provide notice that IRHTP's practical, good faith application of that arm's length requirement would be reviewed after the fact and found to be insufficient." IAD does not concur with this statement as the Rules state that each Pilot Program participant is subject to an audit.[1] IAD is required to conduct its audits in accordance with Generally Accepted Government Auditing Standards (GAGAS)[2], which require auditors to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.[3]

[1] *See, e.g., Pilot Program Selection Order*, 22 FCC Rcd at 20362, ¶ 6 ("[T]he Commission will conduct audits of all selected participants, and if necessary, investigations of any selected participants to determine compliance with Pilot Program, Commission rules and orders, and section 254 of the 1996 Act."). *See also Erratum*, DA 07-5018 (Rel. Dec. 17, 2007) (clarifying that the FCC's Office of Inspector General will conduct an audit for each Pilot Program participant).

[2] *See also* 47 C.F.R. § 54.702(n) (2008).

[3] *See also Government Auditing Standards*, GAO-12-331G, § 6.56 (Rev. Dec. 2011) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.").

The Beneficiary's response does not dispute that Mr. Crandell, the sole proprietor of AIS and consultant to ICN, was involved in the development of and vendor selection process for RFP 12-005 (USAC RFP # 04), which resulted in the selection of ICN to provide meshed Ethernet bandwidth connectivity services for FRNs 64723 and 68296. The Beneficiary's response also does not dispute that Mr. Crandell developed and participated in the vendor selection process for multiple IRHTP RFPs, including the initial RFP requesting quality assurance inspection services (RFP 08-001/USAC RFP #00) for which a provider was not selected after reviewing the bids received. Mr. Crandell's company, AIS, later bid on the quality assurance services and was selected to provide quality assurance inspection services through RFP 09-002 (USAC RFP #02) and RFP 12-04 (USAC RFP #05) (FRNs 41446 and 63145). The Beneficiary's admission of Mr. Crandell's involvement with the development of the RFPs and the vendor selection process for RFP 12-005 and RFP 08-001 demonstrates that the competitive bid process was compromised for FRNs 41446, 63145, 64723, and 68296. Although the Beneficiary explained that it had a firewall in place to ensure its compliance with the Commission's competitive bid rules, the Beneficiary did not provide any documentation to demonstrate the firewall was in place. Therefore, the Beneficiary did not comply with the competitive bid requirements of the Rules (criteria 1 to 3 and 5).

In its response, the Beneficiary states that "none of the FCC rules cited by the USAC auditors provide notice that the particular firewall that IRHTP put into place consistent with the FCC's competitive bidding rules was insufficient or failed to provide adequate insulation from any potential for bid manipulation by program vendors." However, the Rules require the Beneficiary to ensure that the competitive bidding process does not disadvantage one service provider over another (criterion 6). The documentation provided by the Beneficiary during the audit to demonstrate that it had a firewall only consisted of acknowledgements that the Beneficiary, ICN, and AIS were aware of the Rules and did not describe the type and sufficiency of the firewall that the Beneficiary asserts was in place. The Beneficiary indicates, "there was a firewall that prevented the winning bidder from participating in the RFP [#02] formulation or the award process [and] no employee of ICN was involved in drafting, reviewing, or evaluating RFP#04." In addition, the Beneficiary states "[n]either AIS nor ICN personnel participated in the preparation of the RFPs that they were awarded, and neither reviewed or assessed their own or other party's bids." However, the Beneficiary did not provide any documentation to support it had a firewall in place. As noted above, the Beneficiary asserted it was aware of the Commission's rules regarding competitive bidding, but did not provide a description of the implemented firewall to ensure AIS and ICN did not have a competitive advantage during the Beneficiary's competitive bid processes.

Although the Beneficiary states that AIS was not involved in the development and evaluation of the quality assurance inspection service RFPs that resulted in the selection of AIS, Mr. Crandell was involved in developing the original RFP for quality assurance inspection services. In addition, Mr. Crandell served on the evaluation committee that reviewed the bids that were received for the requested quality assurance services. Mr. Crandell had knowledge of the services to be inspected and the requirements for the

quality assurance inspection services that was not available to other potential bidders. In addition, because Mr. Crandell served on the bid evaluation committee for the first RFP for quality assurance services, he was aware of the amounts of the bids received for these services and could use this knowledge to prepare AIS' bids for the two RFPs for quality assurance inspection services that were issued later.

The Beneficiary also states in its response that Mr. Swanson of ICN was not involved in the development or vendor selection process for the RFP, which resulted in the selection of ICN, and "Mr. Crandell was not an employee of ICN." However, the Beneficiary also acknowledges in its response that Mr. Crandell was an ICN consultant and was involved in the development of and vendor selection process for the RFP awarded to ICN. As noted above, the Beneficiary asserts that there was a firewall in place to prevent ICN from having a competitive advantage during this competitive bid process for RFP 12-005 (Meshed Ethernet Bandwidth Connectivity, however, the Beneficiary did not provide IAD with documentation to support this firewall was in place. In addition, IAD was not aware of Mr. Crandell's dual role as a consultant to ICN and as the owner of AIS until informed by the Beneficiary during this audit. [1]

The Beneficiary acknowledges in its response that "[w]hatever 'inside' knowledge one might surmise ICN had about IRHTP's project would have come through its earlier work with IRHTP documentation for the FCC Pilot program… [and] ICN uniquely knew the technical requirements of its own infrastructure…" In addition, the Beneficiary acknowledges, "IRHTP did not have the technical ability within its project management staff to draft RFP#04 [and] IRHTP turned to Tony Crandell of AIS to do the initial drafting of that RFP." Thus, ICN's previous work with the Beneficiary's initial RFP and its relationship with Tony Crandell, who drafted RFP 12-005, provided ICN with an unfair competitive advantage.

In its response, the Beneficiary states that "IRHTP in fact disclosed all of its dealings with potential vendors to USAC as part of its FCC Form 465 applications for funding [and] USAC did not at the time or at any time afterwards question or investigate the disclosure as potentially problematic." However, the Beneficiary did not communicate to USAC AIS's involvement in the Beneficiary's application to the FCC and the development of the network RFPs until October 2, 2013, which was after the competitive bid processes have been completed. While the Beneficiary disclosed AIS' involvement in developing RFP 12-005 (USAC RFP # 04) for which ICN was selected as the service provider, the Beneficiary did not indicate that Mr. Crandell was also a consultant for ICN.[2] As indicated by the Beneficiary, Mr. Crandell, the sole proprietor of AIS, already had a relationship with ICN through his consultant contracts with ICN.[3] Therefore, Mr. Crandell was in a position to influence the Beneficiary's service provider selection while serving as a consultant to ICN, and ICN was selected as the service provider for FRNs 64723 and 68296. Further, although the Beneficiary communicated Mr. Crandell's

[1] Memorandum from Arthur Spies to RHCP, 'Disclosures,' (Apr. 19, 2012).
[2] Memorandum from Arthur Spies to RHCP, 'Disclosures,' (Apr. 19, 2012).
[3] Memorandum from Art Spies, IRHTP, to USAC (May 15, 2014).

involvement in the development of RFPs 10-001 (USAC RFP #03) and 12-004 (USAC RFP #05) on April 11, 2011 and June 21, 2012, this was after the competitive bidding process was completed and the service provider was selected.[1] Therefore, the Beneficiary did not fully inform USAC of the level of IAS and ICN's involvement in the development of its RFPs and participation in the evaluation of bids for the RFPs prior to taking such action (criterion 5).

In its response, the Beneficiary states "ICN was expressly approved by the FCC in its grant of the Pilot program application." However, the FCC's approval of the Beneficiary's pilot program application was not an approval to use ICN as a service provider, and the Commission did not waive the Rules governing the competitive bidding requirements (criteria 1 to 6). In the *Pilot Program Selection Order*, the FCC stressed the importance of the competitive bidding requirements and explicitly stated that the projects selected for RHC Pilot Program awards were required to comply with those requirements.[2] Further, service providers participating in the competitive bid process are prohibited from assisting with or filling out a selected participants' FCC Form 465 for services they are competing to provide (criterion 4). Although the Beneficiary may have described the network infrastructure and the inclusion of ICN in its proposal to the FCC, the Beneficiary did not provide documentation demonstrating that it informed the FCC that ICN would also be a potential service provider for the recurring Ethernet services. In addition, the Beneficiary did not provide documentation demonstrating that it indicated to the FCC that Mr. Crandell, the owner of AIS and consultant to ICN, would be assisting with the development of the RFPs and evaluating the bids received for the services awarded to ICN.

In its response, the Beneficiary states that "the USAC auditors failed to consider the unique nature of the state owned ICN [who] was and is the only entity that has built out broadband fiber to all 99 counties in Iowa [and] was uniquely situated to provide the Ethernet connectivity the rural Iowa hospitals banded together to seek as IRHTP." IAD does not concur with this assertion. IAD did consider ICN's capacity to provide the services requested by the Beneficiary. Further, IAD does not concur with the Beneficiary's assertion that the "USAC auditors would apparently only be satisfied if

[1] Memorandums from Arthur Spies to USAC/FCC, 'Evaluation, Scoring and Award IRHTP RFP10-001,' dated April 11, 2011 and 'Evaluation, Scoring and Awards for IRHTP RFP12-004, dated June 21, 2012.
[2] *See, e.g., Pilot Program Selection Order*, 22 FCC Rcd 20414, ¶ 102 (providing "[t]he competitive bidding requirements ensure that selected participants are aware of the most cost-effective method of providing service and ensures that universal service funds are used wisely and efficiently, thereby providing safeguards to protect against waste, fraud, and abuse.....We find that it is in the public interest and consistent with the *2006 Pilot Program Order* to require all participants to participate in the competitive bidding process."); *Id.* at 20395, ¶ 70 ("Among other things, we deny waiver requests of the Commission's rule requiring that Pilot Program selected participants competitively bid their proposed network projects. In doing so, we reaffirm that the competitive bidding process remains an important safeguard to ensuring universal service support is used wisely and efficiently ensuring that the most cost-effective service providers are selected by selected participants...."); *Id.* n. 326 (directing "the Iowa applicants, and all other applicants, to follow the competitive bidding process detailed *supra* Part III.E.7" and denying their requests for waiver of the competitive bidding requirements).

another vendor for that contract had materialized and prevailed…" ICN's previous dealings with the Beneficiary in the development of the RHC Pilot Program application, ICN's assistance in developing previous RFPs for the Beneficiary's network and evaluation of the bids received, and ICN's direct relationship with Mr. Crandell who developed the RFP for the Ethernet services that ICN was awarded are at the core of this audit finding. As noted above, the Beneficiary did not provide documentation to demonstrate that it had a sufficient firewall in place to ensure the individual(s) that developed the RFP were not also the individual(s) that bid on the Ethernet services provided over the network.

IAD also does not concur with the Beneficiary's assertion that the only purported proof "that the firewall IRHTP used was inadequate to prevent tainting of the competitive bidding process… is a lack of competitive bids." As noted above, Mr. Crandell, AIS' sole proprietor and ICN's consultant, assisted in the development of and the competitive bidding process for the Beneficiary's original RFP for quality assurance inspection services RFP 08-001 (USAC RFP#00) and RFP 12-005 (USAC RFP#04) for meshed Ethernet services that resulted in the selection of ICN. Mr. Crandell and AIS also competed for and was selected to provide quality inspection services through RFP 09-002 (USAC RFP # 02) and RFP 12-004 (USAC RFP #05). In addition, Mr. Crandell and Mr. Swanson of ICN developed and participated in the competitive bidding process for the Beneficiary's other network RFPs, which provided AIS and ICN knowledge about the Beneficiary's network and competitive process that was not available to other providers. Further, the Beneficiary has not provided any evidence that there was a sufficient firewall in place to ensure that ICN and AIS were not provided a competitive advantage when the companies submitted their own bids for certain RFPs. Therefore, the Beneficiary did not comply with the competitive bidding requirements of the Rules (criteria 1 to 6).

For the reasons stated above, IAD's position on this finding remains unchanged.

USAC Management Response

FRNs 41446 and 63145

IAD determined that Mr. Crandell (the owner of AIS) received information that was not available to other prospective bidders for the Quality Assurance Inspection Services that AIS provided for FRNs 41446 and 63145. As discussed above, Mr. Crandell was involved in the development of and bid evaluation for RFP 08-001 that requested bids for Quality Assurance Inspection Services. Based on the documentation provided to USAC, prior to the audit, the Beneficiary did not disclose to USAC that Mr. Crandell or AIS was involved in the development of RFP 08-001. Although the Beneficiary received bids for RFP 08-001, it did not issue an award for the Quality Inspection Services because it determined that "the bids were too expensive for the project" after completing the bid evaluation process for the quality assurance services.[1] Afterwards, Mr. Crandell

[1] Affidavit of Art Spies, IRHTP, at 1 (Oct. 3, 2014) (*Affidavit*).

informed the Beneficiary "that he might be interested in bidding on a more scaled back quality assurance RFP if IRHTP decided in the future to issue one."[1] The Beneficiary later issued two RFPs with a smaller scope of Quality Inspection Services–RFPs 09-002 and 12-004–that resulted in awards to AIS.[2]

The Beneficiary does not dispute that Mr. Crandell helped develop RFP 08-001 and was part of the bid evaluation committee for this RFP. However, the Beneficiary asserts that there was no competitive bidding violation because Mr. Crandell was not involved in the development of or the evaluation of the Beneficiary's subsequent RFPs for Quality Inspection Services that resulted in awards to AIS. The Beneficiary explained that AIS was able to "provide a lower cost, more responsive service" based on the bids that the Beneficiary received for RFP 12-004, and that AIS was the sole bidder for the Quality Inspection Services for RFP 09-002.[3] Although Mr. Crandell did not develop or evaluate RFPs 12-004 or 09-002, that does not mitigate the competitive bidding violation for FRNs 41446 and 63145. Although the Beneficiary asserts that Mr. Crandell was not involved in the RFPs that resulted in the awards to AIS or in its discussions concerning those RFPs, Mr. Crandell had knowledge that was not available to other providers (*e.g.*, competing providers' pricing and information about IRHTP's competitive bidding processes) because of his involvement in the first RFP for Quality Inspection Services (RFP 08-001). Therefore, the Beneficiary's screening of Mr. Crandell from RFPs 12-004 and 09-002 did not prevent AIS from having a competitive advantage when it bid on RFPs 12-004 and 09-002. In addition, the Beneficiary also did not disclose that Mr. Crandell and AIS assisted with developing and evaluating the received bids for RFP 08-001.

USAC management agrees with IAD's recommendation for recovery of funds associated with these FRNs and that the Beneficiary must implement controls and procedures to ensure compliance with the Rules governing the competitive bidding process, including making the necessary disclosures concerning individuals involved in its RFPs. Additional information concerning the competitive bidding requirements for the RHC Pilot Program is available in the *Pilot Program Selection Order* and on USAC's website.[4]

FRNs 64723 and 68296

RFP 12-005 resulted in an award to ICN for meshed Ethernet services for FRNs 64723 and 68296. IAD determined that the Beneficiary violated the competitive bidding requirements because Mr. Crandell (the owner of AIS and consultant to ICN) was involved in the development of and evaluation of bids received for RFP 12-005. IAD

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[1] *Id.*
[2] *Id.*
[3] *Id.* at 2.
[4] *See In the Matter of Rural Health Care Support Mechanism,* WC Docket No. 02-60, Order, FCC 07-198, 22 FCC Rcd 20360, 20412-20415, ¶¶ 100-104 (2007). *See also* http://www.usac.org/rhcp/participants/competitive-bidding.aspx.

also determined that ICN had extensive knowledge about the IRHTP Pilot Project as a result of its involvement in the development and implementation of the IRHTP Pilot Project, and as a result of Mr. Swanson's (an ICN employee) involvement in IRHTP's other RFPs for which ICN did not compete.

The Beneficiary does not dispute that Mr. Crandell was involved in RFP 12-005 or that ICN was involved in the development and implementation of the IRHTP Pilot Project and the other RFPs for which ICN did not compete. However, the Beneficiary states that a competitive bidding finding is not supported because of the unique nature of ICN, the purpose of the IRHTP, and its measures to exclude ICN employees from RFP 12-005. In addition, the Beneficiary provided an affidavit that further clarified the screening process that the Beneficiary used for RFP 12-005 to ensure its compliance with the FCC rules.

The Beneficiary's response explains that ICN is a statewide "fiber optic network, owned, managed, and operated by the State of Iowa." The Beneficiary also explains that "ICN's charter permits it to provide connectivity only to authorized users under the Iowa Code" including hospitals, and that "ICN's rates for this service are published and known to any service provider or potential service provider in Iowa."[1] The Beneficiary further explains that its public Pilot Program application requested funding to build out last-mile fiber to connect eighty-eight individual hospitals throughout Iowa "to the state-wide Iowa Communications Network (ICN) backbone" and disclosed that ICN would eventually charge hospitals for recurring circuit fees for those connections.[2] The Beneficiary's Sustainability Plan also stated that ICN would charge circuit fees to participating HCPs in order to sustain the network.[3] The Beneficiary did not initially seek RHCPP funding for these circuit fees. However, following the FCC's 2012 *Bridge Funding Order* (which provided additional temporary funding for continued support of broadband services provided to HCPs participating in the RHC Pilot Program), the Beneficiary issued RFP 12-005 which resulted in an award to ICN for meshed Ethernet services.[4] Before the Beneficiary issued RFP 12-005, ICN was already providing Ethernet services to HCPs participating in the IRHTP Pilot Project, as was contemplated in IRHTP's Pilot Program application.[5]

The Beneficiary's affidavit further explains that given the nature and mission of ICN and the purpose of the IRHTP Pilot Project, it was anticipated that ICN would submit a bid for RFP 12-005. Accordingly, "Dave Swanson of ICN and any other ICN employee was excluded from the development of the RFP" and the Beneficiary did not "discuss any aspect of the connectivity RFP at any point before the award of the contract to ICN with

[1] *See also, e.g.,* Iowa Code §§ 8D.1, 8D.3, 8D.13; ICN website at http://icn.iowa.gov/about-icn/agency-information-icn-story.
[2] *Affidavit*, at 3. *See also* IRHTP Pilot Program Application, at 39 (May 4, 2007).
[3] *Affidavit*, at 3. *See also* IRHTP Sustainability Plan at 2, 3 (June 2009).
[4] *Affidavit*, at 3. *See also In the Matter of Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 12-74, 27 FCC Rcd 7907, 7911, ¶ 10 (2012).
[5] *Affidavit*, at 3, 4, 5.

Dave Swanson or anyone else at ICN."[1] The Beneficiary further explains that "[i]t was necessary for IHRTP [*sic*] staff to have access to technical knowledge of the ICN technology to be able to draft the technical specifications for the competitive bidding RFP 12-005 to rely on the ICN backbone structure for providing circuit connectivity and to effectively review the bids received" and that there were "very few individuals within the state that could provide consultation on the necessary technical issues."[2] The Beneficiary states that because its staff did not have the necessary technical expertise to develop RFP 12-005, IRHTP engaged Tony Crandell to develop and evaluate bids for that RFP given his "extensive knowledge of the technology already in use in the IRHTP project."[3] The Beneficiary further explains that RFP 12-005 "was drafted to reflect the requirements for the network to function as proposed by the IRHTP project and the previous build-out and nothing more."[4] Based on the affidiavit that was provided, the Beneficiary took measures to ensure that ICN employees were not involved with the development or evaluation of RFP 12-005.

Although USAC management understands that the Beneficiary's affidavit demonstrates that the Beneficiary took steps to ensure that ICN employees were excluded from the development of the RFP, IAD has demonstrated that the beneficiary did not comply with the FCC's competitive bidding rules because it neglected to disclose the relationship. While USAC management further understands that: (a) the Beneficiary competitively bid the Ethernet services and ICN was the only bidder under the procurement; (b) ICN was uniquely situated to provide the most expansive network and services along with the best rates as the State of Iowa's fiber optic network; (c) ICN already possessed sufficient knowledge of the network's current topology and configuration as the preexisting Ethernet services provider to HCPs participating in the project; and (d) no result other than the selection of ICN would have been economically and technically rational, the FCC's rules do not allow consultants for service providers to participate in competitive bidding, and the recovery of funds as recommended by IAD, is required by the rules.

Conclusion

USAC management concurs with the finding, effect and recommendation for FRNs 41446 and 63145 for Quality Assurance Inspection Services and will seek recovery of $150,450. USAC management also concurs with the finding, effect and recommendation for FRNs 64723 and 68296 for meshed Ethernet services and will seek recovery of $378,697.

USAC management further concurs with IAD's finding that the Beneficiary did not sufficiently demonstrate or provide supporting documentation that sufficient controls were in place ensuring that ICN and AIS were not provided a competitive advantage when the companies submitted their own bids for certain RFPs. USAC management

[1] *Id.* at 4.
[2] *Id.*
[3] *Id.*
[4] *Id.*

directs the Beneficiary to implement policies and procedures ensuring that individuals associated with a service provider, including consultants, employees and agents, are not involved in the development of or bid evaluation for RFPs for which that particular service provider intends to compete. USAC will request that the Beneficiary provide a copy of its new procedures within 90 days so USAC can confirm corrective action was undertaken and that the Beneficiary has developed and implemented the appropriate controls.

Criteria

1. "To select the telecommunications carriers that will provide services eligible for universal service support to it under this subpart, each eligible health care provider shall participate in a competitive bidding process pursuant to the requirements established in this subpart and any additional and applicable state, local or other procurement requirements." 47 C.F.R. § 54.603(a) (2008).

2. "Pursuant to sections 54.603 and 54.615 of the Commission's rules, each eligible health care provider must participate in a competitive bidding process and follow any applicable state, local, or other procurement requirements to select the most cost-effective provider of the services eligible for universal service support under the RHC support mechanism." *In the Matter of Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 07-198, 22 FCC Rcd 20360, 20412, ¶ 100 (2007) (*Pilot Program Selection Order*).

3. "Consistent with the Joint Board's recommendation for eligible schools and libraries, we conclude that eligible health care providers shall be required to seek competitive bids for all services eligible for support pursuant to section 254(h) by submitting their bona fide requests for services to the Administrator." *In the Matter of Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Report and Order, FCC 97-157, 12 FCC Rcd 8776, 9133, ¶ 686 (1997) (*1997 Universal Service Order*).

4. "We note that vendors or service providers participating in the competitive bid process are prohibited from assisting with or filling out a selected participants' FCC Form 465." *Pilot Program Selection Order*, 22 FCC Rcd at 20405, ¶ 86, n.281.

5. "To further prevent against waste, fraud, and abuse, we require participants to identify, when they submit their Form 465, to USAC and the Commission any consultants, service providers, or other outside experts, whether paid or unpaid, who aided in the preparation of their pilot Program applications.... Identifying these consultants and outside experts could facilitate the ability of USAC, the Commission, and law enforcement officials to identify and prosecute individuals that may seek to manipulate the competitive bidding process or engage in other illegal acts. To ensure selected participants comply with the competitive bidding requirements, they must disclose all of the types of relationships explained above." *Pilot Program Selection Order*, 22 FCC Rcd at 20415, ¶ 104.

6. "The competitive bidding rules also ensure that universal service support does not disadvantage one provider over another, or unfairly favor or disfavor one technology over another." Federal Communications Commission, *Pilot Program: Frequently Asked Questions and Answers*[1]

[1] *See* FCC's website at http://www.fcc.gov/encyclopedia/rural-health-care-pilot-program#faq18.

Finding #2
Rural Health Care Pilot Program Support Used to Fund Ineligible Participants

Condition

IAD examined the Network Cost Worksheets (NCWs), the contracts between the Beneficiary and the selected Service Providers, the Rural Health Care (RHC) Pilot Program invoices submitted to USAC, as well as the associated service provider bills, to determine whether RHC Pilot Program support was used to fund eligible participants and services. IAD examined the contract between the Beneficiary and Alcatel-Lucent, the FCC Form 465 Attachments, and noted that the contract listed three ineligible participants and the FCC Form 465 Attachments listed two of the three ineligible participants. The three ineligible participants were not listed on the associated FCC Form 466-A Attachments or the NCWs (criteria 1, 2, 5). The Beneficiary informed IAD that the ineligible participants were not listed in the FCC Form 466-A Attachments or the NCWs to ensure that the ineligible participants did not receive RHC Pilot Program funds.[1] Because the Beneficiary did not list the ineligible participants on the FCC Form 466-A Attachments or the NCWs, the Beneficiary did not make a clear delineation between the eligible and ineligible components, apportion the costs to the ineligible participants, or demonstrate how the ineligible participants would pay their fair share of the network costs (criteria 1 to 5).

For FRN 37533, IAD examined the contract between the Beneficiary and the service provider, Alcatel-Lucent, for network electronic services and noted that it included 82 eligible participants and three ineligible participants. The service provider billed the Beneficiary $2,493,237 for core network electronic equipment on October 26, 2009. IAD examined the NCW and the invoice submitted to USAC and noted that the core network electronic equipment costs were allocated equally among the 82 eligible participants and that no costs were allocated to the three ineligible participants. USAC was invoiced for 85% of the costs (or $2,119,252) and USAC disbursed the full amount requested.

For FRN 57252, the service provider billed the Beneficiary $134,378 for software upgrades on June 3, 2011 and October 25, 2011. IAD examined the NCW and the invoice submitted to USAC and noted that the costs for the upgrades were allocated equally among the 82 eligible participants ($1,639 each) and that no costs were allocated to the three ineligible participants. USAC was invoiced for 85% of the costs (or $114,221) and USAC disbursed the full amount requested.

The Beneficiary informed IAD that "[a]ll three ineligible entities are invoiced [by the Beneficiary] for the operation and maintenance of the network just like all participating entities. [The Beneficiary] did not invoice [the ineligible participants] for the $1,638.75 allocated to the 82 IRHTP hospitals."[2] Because the three ineligible entities are using the RHC Pilot Program funded network and benefiting from the supported equipment

[1] Emails from Art Spies, Iowa Rural Health Telecommunications Program (IRHTP) (June 30, 2009 and Mar. 13, 2014).
[3] Memorandum from IRHTP (July 14, 2014).

received, the costs of the core network electronics and the network upgrades should have been allocated among all 85 participants rather than allocating the costs only among the 82 eligible participants. Thus, the three ineligible participants did not pay their fair share of costs and USAC was over-invoiced $74,797 for FRN 37533 ($2,119,252 / 85 * 3) and $4,031 for FRN 57252 ($114,221 / 85 * 3) for the ineligible participants' share of the costs.

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules requiring the identification of ineligible entities on the FCC Form 466-A and NCWs and requiring ineligible entities to pay their fair share of the costs. In addition, the Beneficiary did not have adequate controls and procedures in place to ensure that ineligible participants paid their fair share of network costs and that USAC is invoiced only for eligible services delivered to eligible participants.

Effect

The monetary effect for this finding is $78,828. This amount represents the funding disbursed for the three ineligible participants' share of the costs for FRN 37533 ($74,797) and for FRN 57252 ($4,031).

Recommendation

IAD recommends USAC seek recovery of $78,828. The Beneficiary must implement controls and procedures to ensure that it identifies all ineligible participants in its NCW submitted to USAC with its FCC Form 465 and FCC Form 466-A, that ineligible participants pay their fair share of network costs, and that USAC is invoiced only for eligible services delivered to eligible participants.

Beneficiary Response

> **Regarding FRN 37533** we disagree with the finding and recommendation because all three ineligible providers were NOT participating in the program at that time and so there were only 82 participating health care providers to allocate the network costs to. All 82 HCPs signed Letters of Agency and Participation Agreements and paid their 15% share of the network costs. IHA, RCI and Iowa Radiology did not sign a Letter of Agency, Participation Agreement or made any payment, therefore, they were not participating at that time and should be excluded from the initial network build out. As I indicated to [the auditor] earlier the Alcatel Lucent contract listed IHA, Radiology Consultants of Iowa (RCI) and Iowa Radiology but were potential future additional sites at that time. Please note that the site electronics for IHA, RCI and Iowa Radiology were not included in the Bill of Materials that was part of the Alcatel Lucent contract because these ineligible entities were not part of the initial network. USAC required us to include IHA and Radiology Consultants of Iowa on [the] Form 465 Attachment and they were also included in RFP 01 as potential future sites. Please note Iowa Radiology was not

included in the RFP. We were told to think ahead… A "fair share" issue was NOT raised during the [Form] 466 Award package review by USAC. The FCL for FRN 37533 was issued on August 20, 2009. A critical determinate of participation is when each ineligible entity was connected to the IRHTP network.

Ineligible Entities Timeline – see attached ICN customer connection status [copy provided to USAC management][:]

Event	Radiology Consultants of Iowa	Iowa Hospital Association	Iowa Radiology
Connection to IRHTP Network	10/13/2010	9/21/2010	June 11, 2012

Network connectivity is the time when shared network fair share considerations should begin for ineligible entities.

Each ineligible entity paid 100% of the cost (fiber and electronics) to connect to the IRHTP network. Upon connection[,] each ineligible entity began paying the same monthly circuit fee and administrative and operational fees. The monthly administrative and operation fee covered: electronics service, repair and replacement; fiber locates, relocates and repair; and network software upgrades.

Regarding FRN 57252 we concur with the finding that participating ineligible entities should have been included in the software upgrade cost. It was our oversight. Per the above chart, only two of the ineligible entities were connected and using the network. Therefore based on your calculation, the monetary effect to be reimbursed should be $2,720 for FRN 57252 ($114,221 / 84 * 2) reflecting the two entities that are benefiting from the software upgrade.

We have noted the recommendations and will implement controls and procedures to ensure that we identify all ineligible participants in NCW submissions to USAC with its FCC Form 465 and FCC Form 466-A, that ineligible participants pay their fair share of network costs, and that USAC is invoiced only for eligible services delivered to eligible participants.

USAC IAD Response

IAD does not concur with the Beneficiary's statement for FRN 37533 that the Iowa Hospital Association (IHA), Radiology Consultants of Iowa (RCI), and Iowa Radiology "were NOT participating in the program at the time…[,] [had not] made any payment…[,] [and] should be excluded… [because they] were potential future additional sites at that time." IAD examined documentation substantiating that the Beneficiary, via IHA, invoiced RCI and Iowa Radiology to

obtain their fair share of the Beneficiary's shared network core costs on August 17, 2009, and September 9, 2009, respectively, and the Beneficiary, via IHA, received the payments for RCI's and Iowa Radiology's fair share on August 31, 2009, and September 9, 2009, respectively. However, the Beneficiary was not billed by the service provider for the network core equipment until October 26, 2009. Further, the invoice seeking reimbursement was not submitted to USAC until November 24, 2009. The invoice, which the Beneficiary certified, allocated the full cost of network core equipment evenly to the 82 eligible entities and did not exclude any costs for the ineligible entities' fair share. Although IHA was not invoiced for its fair share prior to the bill for the network core equipment, IHA is the project coordinator and administrator for the Beneficiary. IHA's significant involvement with the network development, its inclusion on the FCC Form 465 Attachment, and its inclusion in the original contract with the service provider demonstrates IHA was a known participant and should have been included with RCI and Iowa Radiology in the allocation of the network core costs.

The Beneficiary states that "the site electronics for IHA, RCI and Iowa Radiology were not included in the Bill of Materials that was part of the Alcatel Lucent contract because these ineligible entities were not part of the initial network." IAD examined the contract and agrees with the Beneficiary that IHA, RCI, and Iowa Radiology were not included for the site electronics. However, the issue for this finding is the purchase of the network core equipment to serve the entire shared network and not the specific site electronics. The Beneficiary informed IAD that the site electronics for the three ineligible entities were purchased at a later date. However, as noted above, the Beneficiary was aware of the three ineligible entities' future participation in the network, therefore, the network core equipment should have been allocated among all 85 participants.

In its response, the Beneficiary states "[n]etwork connectivity is the time when network fair share considerations should begin for ineligible entities." Using this logic, the costs of the network core equipment would be incorrectly allocated on its NCW for the eligible entities. In the Beneficiary's June 2009 Sustainability Plan, the Beneficiary states that its revenue and expense projections reflect "20 hospitals connected in 2009, 65 hospitals connected in 2010 and 84 sites in 2011." As noted above, USAC was invoiced for reimbursement of the network core equipment on November 2009 and RCI and Iowa Radiology were requested to pay their fair share in August 2009 and September 2009, respectively. Although the Beneficiary states that the ineligible entities were not allocated costs and therefore, not reduced from the network core costs invoiced to USAC because they were "potential future sites," the Beneficiary included other eligible sites that also were not yet connected in its Sustainability Plan. The network core equipment was purchased in anticipation of use by participants that would connect to the network, including the three ineligible participants. The network core equipment was delivered by the service provider on October 26, 2009, and at

that time, no participants were connected to the Beneficiary's network because they had not received their site specific network equipment.

For FRN 57252, IAD does not concur with the Beneficiary's statement that the monetary effect should be allocated by 84 entities rather than 85. As noted above, the Beneficiary should have allocated the shared network costs among all known participants regardless of whether they were connected to the network by the date of the bill or were to be connected at a later date. Because Iowa Radiology paid its fair share to the Beneficiary in September 2009, and was included in the contract, the Beneficiary was aware of Iowa Radiology's participation in the shared network.

For the reasons above, IAD's position on this finding remains unchanged.

USAC Management Response

USAC management concurs with IAD's finding that the three ineligible entities were benefiting from the supported equipment received and that the costs of the core network electronics and the network upgrades should have been allocated among all 85 participants rather than among the 82 eligible participants. This is evidenced by the fact that the Beneficiary invoiced two of the ineligible entities in August and September 2009. The network core equipment was purchased in anticipation of use by participants that would connect to the network, including the three ineligible participants. The Beneficiary was aware of the three ineligible entities' future participation in the network, therefore, the network core equipment should have been allocated among all 85 participants. USAC also concurs with IAD's finding that the Beneficiary should have included the three ineligible entities when allocating the software upgrade costs instead of the two claimed by the Beneficiary. Like the network core equipment, the Beneficiary purchased the software upgrades in anticipatiin of use by known participants including the three ineligible entities and, therefore, should have allocated the costs accordingly. USAC will seek recovery of $78,828.

Criteria

1. "Ineligible costs include costs that are not directly associated with network design, deployment, operations and maintenance. These ineligible costs include, but are not limited to:...Connections to ineligible network participants or sites (*e.g.*, for-profit health care providers) and network costs apportioned to ineligible network participants." *In the Matter of Rural Health Care Support Mechanism*, , WC Docket No. 02-60, Order, FCC 07-198, 22 FCC Rcd 20360, 20398, ¶ 75 (2007) (*Pilot Program Selection Order*).

2. "USAC may only fund eligible costs as described in this Order and is prohibited from funding ineligible costs or providing funding to ineligible participants. We require, as discussed below, Pilot Program participants to identify and detail all ineligible costs, including costs apportioned to for-profit and other ineligible network participants or sites, in their line-item network

costs worksheets submitted to USAC with FCC Forms 465 and 466-A, and to clearly demonstrate that Pilot Program support amounts will not be used to fund ineligible costs. We note that if a product or service contains both eligible and ineligible components, costs should be allocated to the extent that a clear delineation can be made between the eligible and ineligible components." *Pilot Program Selection Order*, 22 FCC Rcd at 20399, ¶ 76.

3. "Selected participants' network costs worksheet submissions shall demonstrate how ineligible (*e.g.*, for-profit) participants will pay their fair share of network costs. Selected participants shall identify these costs with specificity in their network costs worksheet submissions." *Pilot Program Selection Order*, 22 FCC Rcd at 20408, ¶ 90.

4. "A selected participant cannot sell its network capacity supported by funding under the Pilot Program but could share network capacity with an ineligible entity as long as the ineligible entity pays its fair share of network costs attributable to the portion of network capacity used." *Pilot Program Selection Order*, 22 FCC Rcd at 20416, ¶ 107.

5. "To prevent against violation of the prohibition on resale of supported services and to further prevent against waste, fraud, and abuse, we require participants to identify all for-profit or other ineligible entities, how their fair share of network costs was assessed, and proof that these entities paid or will pay for their costs." *Pilot Program Selection Order*, 22 FCC Rcd at 20416, ¶ 108.

Finding #3
Beneficiary Certified and Service Provider Submitted Invoices to USAC Prior to Collecting Payment for the Minimum 15 Percent Contribution from the Beneficiary

Condition

IAD examined documentation, including the Rural Health Care Pilot Program invoices the service provider submitted to USAC and the corresponding service provider bills provided to the Beneficiary, to determine whether the Beneficiary paid the required 15 percent minimum contribution to the service provider before certifying that the invoice was accurate and that the required minimum 15 percent contribution was paid from eligible sources for each invoice submitted to USAC. IAD examined the service provider bills and payments for FRNs 37533, 37534, 38196, 41316, 41446, 41820, 47731, 53313, 59779, and 60318 and noted that the Beneficiary paid its required 15 percent minimum contribution to the service provider after the Project Coordinator certified to the accuracy of invoices and that the 15 percent minimum contribution was paid, after the service provider submitted the invoices to USAC (criteria 1 and 2). The specific dates at issue for each invoice are provided below.

FRN	Date Invoice Signed by Lead Project Coordinator	Date Service Provider Submitted Invoice to USAC	Service Provider Bills Sought for Reimbursement in the Invoices	Date Beneficiary Paid the Bills
37533	November 24, 2009	November 24, 2009	One for October 2009	November 30, 2009
	September 9, 2010	September 10, 2010	One for August 2010	September 14, 2010
	January 19, 2011	January 25, 2011	Two for January 2011	January 27, 2011
37534	August 18, 2010	August 18, 2010	Two for July 2010	August 26, 2010
	November 1, 2010	November 1, 2010	One for October 2010	November 4, 2010
	May 31, 2011	May 31, 2011	Two for May 2011 One for October 2010	June 3, 2011
38196	October 15, 2010	October 15, 2010	Three for September 2010	October 21, 2010
	October 25, 2010	October 25, 2010	Two for June 2010 One for July 2010 Three for September 2010 Two for October 2010	November 4, 2010
	October 10, 2011	October 17, 2011	Three for September 2011	October 20, 2011
	November 29, 2010	November 30, 2010	Three for November 2010	December 20, 2010
	December 6, 2010	December 7, 2010	Three for November 2010	
	December 15, 2010	December 15, 2010	Five for November 2010 Three for December 2010	
	December 16, 2010	December 16, 2010	Two for November 2010 One for December 2010	
	December 22, 2010	December 23, 2010	Five for November 2010 Nine for December 2010	January 14, 2011
	January 10, 2011	January 11, 2011	Four for December 2010	
41316	August 18, 2010	August 25, 2010	One for May 2010	August 26, 2010

FRN	Date Invoice Signed by Lead Project Coordinator	Date Service Provider Submitted Invoice to USAC	Service Provider Bills Sought for Reimbursement in the Invoices	Date Beneficiary Paid the Bills
41446	April 19, 2013	April 26, 2013	One for April 2013	May 3, 2013
41820	June 8, 2010	June 9, 2010	Six for May 2010	June 17, 2010
	May 16, 2011	May 17, 2011	Thirteen for May 2011	May 19, 2011
	June 29, 2011	June 30, 2011	One for June 2011	July 5, 2011
	November 4, 2011	November 8, 2011	Three for September 2011	November 17, 2011
47731	June 29, 2011	June 30, 2011	One for June 2011	July 5, 2011
	November 4, 2011	November 8, 2011	One for September 2011	November 17, 2011
53313	December 7, 2011	December 8, 2011	Two for September 2011	December 15, 2011
59779	August 1, 2012	August 3, 2012	Four for July 2012	August 10, 2012
	April 19, 2013	April 22, 2013	One for January 2013	May 6, 2013
60318	May 1, 2012	May 1, 2012	One for April 2012	May 7, 2012

Cause

The Beneficiary and Service Provider did not demonstrate sufficient knowledge of the Rules and did not have adequate controls and procedures in place to ensure that the Beneficiary paid its 15 percent minimum contribution to the service provider before the Project Coordinator certified that the invoices were accurate and that the required 15 percent minimum contribution was paid before the service provider submitted the invoices to USAC.

Effect

There is no monetary effect for this finding as the Beneficiary paid its 15 percent minimum contribution in full to the service provider. However, by certifying that an invoice is accurate and that the 15 percent minimum contribution was paid prior to actually paying the required contribution, there is an increased risk that the Beneficiary may not pay its 15 percent minimum contribution as required by the Rules.

Recommendation

The Beneficiary must implement controls and procedures to ensure that it pays its 15 percent minimum contribution to the service provider prior to certifying that an invoice is accurate and that the Beneficiary paid the required 15 percent minimum contribution. In addition, the service provider must implement controls and procedures to ensure the Beneficiary's 15 percent minimum contribution is collected prior to submitting the invoices to USAC.

Beneficiary Response

> Each participating health care provider (HCP) forwarded/prepaid their 15% share of the cost to IHA prior to construction of fiber and acquisition of electronics. The HCP is an eligible source of funding. By forwarding their 15% share of the cost [to] the Beneficiary (HCP) prior to electronics

acquisition and fiber installation[,] the HCP has paid their share of the cost. As service provider invoices were received, the IRHTP Project Coordinator reviewed the service providers invoice for accurcracy, calculated the HCP's 15% share[,] and processed the service providers invoice for USAC payment and payment of the HCP 15% share to the service provider.

Your recommendation has been noted and procedures will be implemented to ensure the Beneficiary has paid the required 15% contribution and the HCP 15% cost share is paid to the service provider prior to certifying that the invoice is accurate.

Service Provider Response for FRNs 37533 and 60318

We processed both transactions at the same time with the understanding that the terms were net 45 with the customer and that USAC will follow with the remaining amount due. The problem is that the customer invoice comes as one and there is [*sic*] two sources of payment. Then the customer is slower in paying versus USAC. This process is hard to manage when you have to wait for a payment from the beneficiary before making the claim to UCAC [*sic*]. This is all back office systems that cannot support invoice once payment is delivered. We usually invoice as services are rendered not as beneficiary pays.

Service Provider Response for FRN 37534

We have reviewed the findings above and report the following in response: Findings are understood. Future claims will be audited to confirm 15% payment. All payments and requests on this order have been completed. There was no malice intended.

Service Provider Response for FRNs 38196 and 59779

Communication Technologies, LLC. had no control over the timing of the Beneficiary's contribution. Invoices were sent to Communication Technologies from Art Spies with the Iowa Hospital Association which we confirmed, signed and e-mailed to the USAC e-mail address for such purposes.

Service Provider Response for FRN 41316

Premier Communications ("Premier") agrees that the 15% was paid by the Beneficiary one day after Premier submitted the invoice to USAC for reimbursement. It was Premier's understanding that when it received the signed invoice from the Beneficiary, payment had been sent and received; however, we can assume that this was done via verbal confirmation and not through an actual check received, which occurred the next day according to USAC's audit. In the future, Premier will implement a control where our regulatory department will confirm with its accounting department that payment has been received prior to requesting the

signature of our CEO and submitting the invoice to USAC. We feel that this control will prevent future instances where payments are received after the invoice is submitted.

Service Provider Response for FRN 41446

The above finding has been read, is understood, and has been included in the AIS USAC Financial Documentation Book. A checklist is now in that book showing the date of the receipt of the 15% for future projects.

Service Provider Response for FRNs 41820 and 47731

MasTec has received all payments according to the email [from the auditor] dated August 19, 2014 [notifying MasTec of this finding].

Service Provider Response for FRN 53313

I did check back into the history of FRN 53313, and would agree that USAC was invoiced on December 8, 2011 (one week before payment was received from IRHTP for the 15% portion due by the HCP). Unfortunately I do not know the history of why this happened as the SDN employee that handled the Rural Health invoicing at that time is no longer with us. I can only assume that they were unaware of this specific rule with the Pilot Program.

Since that staff transition I have been diligent in working to improve SDN's accounting processes as they relate to the Rural Health and Erate Programs. We are also striving to be sure that all USAC requirements are met within the different programs through research, other Rural Health Consultants[,] as well as more open communication with the HCP's. This past year, we have transitioned from an outdated/inflexible billing system to a much more robust billing/receivables system. This new system allows us to better track HCP payments "real-time" as well as housing more detailed information at the account level so that we can be sure that USAC is invoiced correctly. Obviously the certification process must not be taken lightly and we will certainly do more due diligence on payments and requirements before sending on to USAC going forward.

USAC IAD Response to Service Provider Response for FRNs 38196 and 59779

Although Communication Technologies, LLC, had no control over the timing of the Beneficiary's 15 percent contribution, the Service Provider is still responsible for submitting the invoice to USAC and collecting the required 15 percent contribution from eligible participants. In this instance, the Service Provider submitted the invoice to USAC before ensuring it had collected the Beneficiary's 15 percent minimum contribution. For this reason, IAD's position on this finding remains unchanged.

USAC Management Response
While the Beneficiary certified that it collected the required 15 percent contribution prior to invoice submission, the contribution was actually collected *after* invoices were submitted to USAC in violation of the Rules. USAC management agrees with IAD's recommendation that the Beneficiary and Service Providers implement policies and procedures to ensure that USAC is invoiced only after the 15 percent contribution has been paid. USAC will request that the Beneficiary provide a copy of its new procedure to confirm the corrective action was undertaken.

Criteria

1. "USAC will disburse Pilot Program funds based on monthly submissions (*i.e.*, invoices) of actual incurred eligible expenses...Service providers shall submit detailed invoices to USAC on a monthly basis for actual incurred costs...All invoices shall also be approved by the lead project coordinator authorized to act on behalf [of] the health care provider(s), confirming the network build-out or services related to the itemized costs were received by each participating health care provider. The lead project coordinator shall also confirm and demonstrate to USAC that the selected participant's 15 percent minimum funding contribution has been provided to the service provider for each invoice." *In the Matter of Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 07-198, 22 FCC Rcd 20360, 20411 ¶ 98 (2007) (*Pilot Program Selection Order*).

2. "**Project Coordinator Certification.** I certify that I have examined the information provided in the Rural Health Care Pilot Program Invoice, and to the best of my knowledge, information and belief, the participating health care providers have received the network build-out or related services itemized on this invoice. I certify under penalty of perjury that the 15 percent minimum funding contribution for each item on this invoice required by the Rural Health Care Pilot Program rules was funded by eligible sources as defined in the rules and has been provided to the vendor." Rural Health Care Pilot Program Invoice Form, (OMB 3060-0804), Nov. 2010.

Finding #4
Beneficiary Did Not Notify USAC and the FCC that the Network Project Was Not Initiated Within Six Months of the Funding Commitment Letter

Condition
IAD examined the Funding Commitment Letter (FCL), FCC Form 467, and the initial service provider bill demonstrating the start of services for FRN 47731 to determine whether the fiber installation services were initiated within six months of the FCL dated September 16, 2010. The Beneficiary submitted its FCC Form 467 to USAC on September 28, 2010 and certified that the fiber installation services would start on October 1, 2010. However, IAD noted that the initial service provider bill dated June 28, 2011, was for services received between April 1, 2011 and May 27, 2011, which is more than six months after the FCL was issued (criterion 1). The Beneficiary informed IAD that it did not notify USAC or the FCC that its network project was not initiated within six months of the date of the FCL.

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules and did not have adequate controls and procedures in place to ensure that the Beneficiary notified USAC and the FCC that its RHC Pilot Program funded network project was not initiated within six months of the FCL.

Effect
There is no monetary effect for this finding because the fiber build-out for the RHC Pilot Program funded network was initiated by April 1, 2011, prior to completion of the audit.

Recommendation
The Beneficiary must implement controls and procedures to ensure that it notifies USAC and the FCC when RHC Pilot Program funded network projects are not initiated within six months of the FCL and to do so within 30 days thereafter, explaining when it anticipates that the approved network project will be initiated as required by the Rules.

Beneficiary Response

> While construction began on April 1, 2011, there are many activities that must occur prior to the start of construction such as pathway engineering and drawings, procuring needed construction materials (e.g. fiber) and obtaining any needed permits[,] which means activity actually began prior to April 1, 2011. Your recommendation has been noted and controls and procedures will be implemented to ensure USAC is notified if service is not initiated within 6 months of the FCL.

USAC Management Response
USAC management agrees with the finding and recommendation. The Beneficiary should have notified USAC that its network build-out would not start within six months

after issuance of the FCL. USAC will request that the Beneficiary provide a copy of its new procedure to confirm the corrective action was undertaken.

Criteria

1. "If the selected participant's network build-out has not been initiated within six months of the [Funding Commitment Letter] FCL sent by USAC to the selected participant and service provider(s) approving funding, the selected participant must notify USAC and the Commission within 30 days thereafter explaining when it anticipates that the approved network project will be initiated." *In the Matter of Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 07-198, 22 FCC Rcd 20360, 20409, ¶ 94 (2007) (*Pilot Program Selection Order*).

This concludes the results of our audit. 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 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.

cc: Mr. Chris Henderson, USAC Chief Executive Officer
Mr. David Capozzi, USAC General Counsel

USAC
Universal Service Administrative Company

Rural Health Care Division
www.usac.org/rhc
1-800-453-1546

COMMITMENT ADJUSTMENT LETTER

May 6, 2015

Mr. Tony Crandell
Access Integration Specialists
501 North Walnut Street
Lamoni, Iowa 50140

Dear Mr. Crandell:

Our routine review of Rural Health Care (RHC) program funding commitments revealed applications in which funds were committed in error or in violation of program rules. USAC must now adjust the funding commitments and recover the funds. The attached Funding Commitment Report includes a list of the Funding Request Number(s) (FRNs) for the health care provider (HCP) for which adjustment is necessary. The HCP mailing contact is also being notified so you may work with them to implement this adjustment.

If the Funds Disbursed to Date amount exceeds your Adjusted Funding Commitment amount, USAC will have to recover some or all of the funds disbursed. If the Funds Disbursed to Date amount is less than the Adjusted Funding Commitment amount, USAC will continue to process properly filed invoices up to the Adjusted Funding Commitment amount. To remit payments, please review the payment addresses below and use the attached Payment ID Worksheet to identify the payment amount and reason for return.

If you wish to appeal this decision, you may file an appeal with USAC. The appeal **must be submitted to USAC within 60 days of the date of this letter**. Parties seeking waivers of FCC rules can appeal directly to the FCC. See 47 CFR Sections 54.719 and 720. Detailed instructions for filing appeals are available at: http://www.usac.org/rhc/about/program-integrity/appeals.aspx.

If you have questions or need help, you may call the Customer Service Support Center at 1-800-453-1546.

Sincerely,

/USAC

Attachments

Copy to: Art Spies, Project Coordinator – Iowa Hospital Association

ATTACHMENT J

Payment Addresses

U.S. Postal Service/Standard Mail for Payments:	USAC P.O. Box 105056 Atlanta, GA 30348-5056
Courier/Overnight Packages:	USAC c/o Bank of America (105056) 1075 Loop Road Atlanta, GA 30337 404.209.6377
ACH Payments:	Should be sent in a CCD+ format to ABA Routing #071000039, Account #5590045653
Wire Transfers:	Bank Name: Bank of America Location: 100 West 33rd Street, New York, NY 10001 Bank ABA Routing Number: 026009593 Bank Account Number: 5590045653 Account Type: DDA Account Name: UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

More payment instruction information can be found at: http://www.usac.org/cont/making-payments/payment-instructions.aspx.

A Guide to the Funding Commitment Report

- Funds to be Recovered: This represents the amount of Funds Disbursed to Date that exceeds the Adjusted Funding Commitment amount. These funds will have to be recovered.
- Funds Disbursed to Date: This represents the total funds which have been paid up to now to the identified service provider for this FRN.
- Adjusted Funding Commitment: This represents the adjusted total amount of funding that RHCD has committed to this FRN. If this amount exceeds the Funds Disbursed to Date, RHCD will continue to process properly filed invoices up to the new commitment amount.
- Funding Request Number (FRN): An FRN is assigned by the RHCD to each Funding Commitment Letter. This number is used to report to applicants and service providers the status of funding requests for all RHC Programs.
- Service Provider Identification Number (SPIN): A unique number assigned by USAC identify service providers seeking payment from universal service fund programs.
- Billing Account Number (BAN): The account number your service provider has established with you for billing purposes, if any.

USAC
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Rural Health Care Division
www.usac.org/rhc
1-800-453-1546

Funding Commitment Report

HCP 17226 (Iowa Hospital Association)

Funding Year:	2009
Applicant:	Iowa Rural Health Telecommunications Program
HCP Contact Person:	Art Spies
RHC Program:	Pilot Program

Funding Request Number(s):	41446
SPIN:	143033620
Service Provider Name:	Access Integration Specialists
Services Ordered:	Quality assurance inspection services
Billing Account Number:	

Original Funding Commitment:	$ 142,290.00
Adjusted Funding Commitment	$ 0.00
Funds Disbursed to Date:	$ 142,290.00
Funds to be Recovered:	**$ 142,290.00**

Funding Commitment Adjustment Explanation:

Recovery sought pursuant to Audit RH2013PP018 competitive bidding violation audit finding.

PLEASE SEND A COPY OF THIS PAGE WITH YOUR CHECK TO ENSURE TIMELY PROCESSING

USAC
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1-800-453-1546

Funding Commitment Report

HCP 17226 (Iowa Hospital Association)

Funding Year:	2009
Applicant:	Iowa Rural Health Telecommunications Program
HCP Contact Person:	Art Spies
RHC Program:	Pilot Program

Funding Request Number(s):	63145
SPIN:	143033620
Service Provider Name:	Access Integration Specialists
Services Ordered:	Quality assurance inspection services
Billing Account Number:	

Original Funding Commitment:	$ 8,160.00
Adjusted Funding Commitment	$ 0.00
Funds Disbursed to Date:	$ 8,160.00
Funds to be Recovered:	**$ 8,160.00**

Funding Commitment Adjustment Explanation:

Recovery sought pursuant to Audit RH2013PP018 competitive bidding violation audit finding.

PLEASE SEND A COPY OF THIS PAGE WITH YOUR CHECK TO ENSURE TIMELY PROCESSING

I	Independent Auditor's Report on Iowa Rural Health Telecommunications Program's Compliance with Rural Health Care Pilot Program Rules (USAC Audit No. RH2013PP018) (Sept. 5, 2014)
J	Letter from Rural Health Care Division, USAC, to Tony Crandell/Access Integration Specialists (May 6, 2015)

GREFE & SIDNEY, P.L.C.

By: */s/ Adam D. Zenor*
Adam D. Zenor, AT0009698

By: */s/ Holli M. Andresen*
Holli M. Andresen, AT 0011544

500 E. Court Ave., Ste. 200
Des Moines, IA 50309
Phone: 515/245-4300
Fax: 515/245-4452
azenor@grefesidney.com

ATTORNEYS FOR ACCESS
INTEGRATION SPECIALISTS

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In The Matter of Request for Review by Access Integration Specialists of Decision of Universal Service Administrator	WC Docket No. 02-60 **APPENDIX**

COMES NOW Access Integration Specialists (AIS), by and through the undersigned counsel, and provides the following list of attachments referenced in its Request for Review of the Decision of the Universal Service Administrator:

Attachment	Description
A	Iowa Rural Health Telecommunications Program Network Plan (Oct. 2013), *available at* http://www.usac.org/_res/documents/rhc/pdf/tools/HCF-Posted-Services/17226_NetworkPlan-01.pdf
B	Affidavit of Tony Crandell
C	*In the Matter of Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 07-198, 22 FCC Rcd 20360 (2007)
D	Administrator's Decision on Rural Health Care Program Appeal (Jan. 27, 2016)
E	RFP 08-001
F	IRHTP Steering Committee Minutes of November 12, 2008
G	RFP 09-002
H	Affidavit of Art Spies