

*Universal Service  
Administrative Company  
("USAC")*

**Agreed-Upon Procedures Report**  
For the year ending December 31, 2002

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES

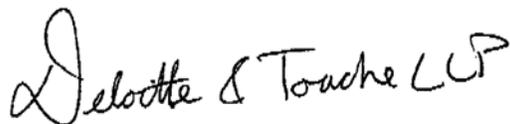
To the Board of Directors of the  
Universal Service Administrative Company  
Washington, D.C.

We have performed the procedures included herein, which were agreed to by the Universal Service Administrative Company ("USAC" or the "Company") and the Federal Communications Commission ("FCC"), solely to assist you and the FCC in evaluating whether the Company has fulfilled its responsibilities in accordance with the requirements promulgated by the FCC in Section 47 C.F.R. §54.717 of the FCC rules. USAC's management is responsible for USAC's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Exhibit XXXI either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are included herein.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not restricted.



February 28, 2003

**Deloitte  
Touche  
Tohmatsu**

## GENERAL

### Compliance Procedures

1. We read the certificate of incorporation and bylaws of the Universal Service Administrative Company (“USAC” or the “Company”) and noted that USAC is a wholly owned subsidiary of the National Exchange Carrier Association (“NECA”). In addition, we inquired of USAC management as to whether USAC is affiliated with any telecommunications service providers and were informed that in accordance with FCC Rules and Regulations, certain members of USAC’s committees are officers or employees of telecommunications service providers.
2. We inquired of USAC management about whether USAC’s Board of Directors is separate from NECA’s Board of Directors and were informed that the boards are separate.

We obtained the list of USAC’s Board of Directors in effect at December 31, 2002 and compared its composition with that as described in Section 54.703(b) of the Federal Communications Commission (“FCC”) rules and noted that they were in agreement.

3. We inquired of USAC’s accounting personnel as to whether USAC maintains its books of records separate from those of NECA and were informed that USAC does maintain its books of records separate from those of NECA.

We obtained USAC’s general ledger (“G/L”) for the year ended December 31, 2002 and USAC’s approved written accounting policies and procedures and observed that USAC’s G/L contains only the financial activities of USAC and the Universal Support Mechanisms (“USM”).

4. We obtained USAC’s 2002 annual payroll report detailing the officers and employees of USAC and the annual salaries paid including the basic rate of pay, bonuses, any non-regular payments and other compensation. We compared 2002 aggregate annual compensation including the basic rate of pay, bonuses, any non-regular payments and other compensation paid to each officer and employee of USAC to the 2002 basic salary limit of \$166,500 as defined by Level I of the Executive Schedule under Section 5312 of Title 5 of the United States Code (“USC”). We noted that the aggregate annual 2002 compensation paid including the basic rate of pay, bonuses, any non-regular payments and other compensation paid to each officer and employee of USAC did not exceed the Level I basic salary limit of \$166,500.

5. We obtained schedules prepared by USAC's accounting personnel comparing consolidated operating expenses and capital expenditures incurred during 2002 to budgeted amounts. We agreed the consolidated operating expenses and capital expenditures on the USAC prepared schedules to USAC's trial balance at December 31, 2002 and noted they were in agreement. We compared the consolidated operating expenses and capital expenditures to budgeted amounts and identified the following operating expenses with a variance in excess of plus/minus 10% of the budgeted amounts.

	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	<b>% Variance</b>
<b><u>Administrative Expense:</u></b>				
<b>Audits</b>	\$ 1,065,380	\$ 2,933,300	\$ (1,867,920)	(64%)
<b>Billings and collection</b>	3,465,573	5,334,800	(1,869,227)	(35%)
<b>Professional fees-other</b>	398,833	316,700	82,133	26%
<b>Rent</b>	381,410	693,600	(312,190)	(45%)
<b>Personnel expenses</b>	223,375	132,800	90,575	68%
<b>Travel</b>	181,527	287,800	(106,273)	(37%)
<b>Insurance</b>	0	100,000	(100,000)	(100%)
<b>Mailings</b>	24,789	18,900	5,889	31%
<b>Taxes</b>	15,209	17,400	(2,191)	(13%)
<b><u>Capital Expenditure:</u></b>				
<b>Software</b>	\$ 233,707	\$ 0	\$ 233,707	100%

In addition, we performed the following:

- a. We obtained a schedule prepared by USAC's accounting personnel comparing the detailed operating expenses by G/L account and by USM for 2002 to the operating expenses by G/L account and by USM for 2001. We noted the variations from 2001 to 2002 and obtained explanations from the USAC Director of Finance for all accounts with a balance of \$100,000 or more where the increase was in excess of 20% as summarized in Exhibit I.
  - b. We obtained a schedule prepared by USAC's accounting personnel comparing the operating expenses by USM for 2002 to the budgeted operating expenses by USM for 2002. We noted the variations between actual and budget and documented explanations provided by USAC Director of Finance as summarized in Exhibit II.
6. We obtained USAC's written policies and procedures and noted that finalized written policies and procedures had been approved and those that were in draft form were awaiting approval. We inquired of USAC management whether there is a process in place to provide reasonable assurance that the written accounting policies and procedures are in compliance with Part 54 FCC rules governing Universal Service and were

informed that USAC management reads the policies and procedures for compliance before approval.

7. We obtained USAC's Cost Allocation Manual ("CAM") and inquired of USAC's Director of Finance if the USAC CAM was in compliance with Part 54.702 (k) of the FCC rules. We noted that the CAM has been amended and were informed by the USAC Director of Finance that it is in compliance with Part 54.702 (k) of the FCC rules.
8. We randomly selected 24 investments made by USAC during 2002 on behalf of the USM. We read each selected investment instrument and noted that there were no direct investments in telecommunications service providers. We also noted that, as of December 31, 2002, USAC and USM did not have any debt outstanding.
9. We obtained Section 54.702 (h) of the FCC rules from the National Archives and Records Administration Code of Federal Regulations website, [www.access.gpo.gov/nara/cfr/waisidx\\_02/47cfr54\\_02.html](http://www.access.gpo.gov/nara/cfr/waisidx_02/47cfr54_02.html). We obtained USAC's G/L for 2002 and noted that separate G/L accounts exist for the following support mechanisms: High Cost, Low Income, Schools and Libraries and Rural Health Care. We were informed by the USAC Director of Finance that Interstate Access Universal Service Support and Interstate Common Line Support do not have separate G/L accounts and are combined with the High Cost support mechanism G/L accounts. We noted that each support mechanism has a separate G/L account for cash, billings to contributors and receivables from contributors, disbursements to service providers and payables to service providers. We were informed by USAC's Director of Finance that actual billings to contributors, disbursements to service providers and payables to service providers are recorded in each support mechanism G/L account. Cash collections from billings to contributors are allocated to the separate G/L cash and accounts receivable ("A/R") accounts of each support mechanism based on a program demand allocation factor.
10. We obtained and read a copy of USAC's 2001 audited financial statements and agreed-upon procedures report. We were provided access and authorization to view the prior accountants' 2001 audit and agreed-upon procedures work papers. We obtained from USAC management a summary of 2001 agreed-upon procedure findings and USAC's management written response of corrective measures taken. We inquired of USAC management if the corrective measures described in their written response were implemented and were informed that corrective actions were taken for all economically feasible recommendations.

## CONTRIBUTORS TO USF

1. We inquired of the USAC Data Collection Agent (“NECA”) the procedures used to identify telecommunications carriers subject to participation in the Universal Service Fund (“USF”). We obtained the list of USF contributors and using a random sample generator, we selected a sample of 20 contributors (Exhibit III) from the USF list of contributors. We compared the 20 contributors selected to the FCC published list of carriers (FCC website <http://gulfoss2.fcc.gov/cib/form499/499a.cfm>) contributing to the Telecommunications Relay Services (“TRS”) fund, the North American Numbering Plan Administration and the Local Number Portability Administration. We noted that all 20 contributors selected were included in the FCC published list of carriers.
2. We inquired of the USAC Data Collection Agent the procedures in place for following up with non-responders to the FCC Form 499 data request. We obtained a data file of non-responders for filings due in 2002 and using a random sample generator, we selected a sample of 30 non-responders (Exhibit IV) from the data file. We obtained the documentation including internal phone logs detailing calls to carriers requesting information or an internal calculation of the carrier’s estimated contribution for each of the 30 non-responders selected and noted that NECA had supporting documentation describing their efforts to obtain the FCC Form 499 data information. We noted that for the 30 non-responders selected NECA estimated the non-responders revenue information for all 30 carriers and 29 of the 30 non-responders were exempt under the “de minimis rule.” A carrier is deemed to be de minimis when their contributions for the year would amount to less than \$10,000.
3. We obtained a database of carriers that report revenues but do not contribute to the USF under the de minimis exemption. Using a random sample generator we selected a sample of 20 carriers (Exhibit V). For each of the 20 carriers selected, a Certification of De Minimis Exemption was not obtained. We were informed by the USAC Data Collection Agent that a Certification of De Minimis Exemption is issued for carriers that are classified as a de minimis service provider and the 20 carriers selected were not classified as de minimis service providers. We obtained the Form 499A filed in April 2002 for each of the 20 carriers selected and compared the revenues reported on Form 499A line 420 columns (d) & (e) to the revenues in the de minimis database, noting no exceptions. We recalculated the universal service contributions and noted that the de minimis status for each of the 20 carriers selected was correct.
4. We obtained and read the written procedures in place for inspecting the FCC Form 499s. We noted that the procedures included steps whereby the USAC Data Collection Agent inspects the FCC Form 499s for errors, omissions, and mathematical accuracy.

5. We obtained the database of Form 499s by carrier for November 1, 2001, February 1, 2002, April 1, 2002, May 1, 2002 and August 1, 2002 filings from the USAC Data Collection Agent. Using a random sample generator, we selected an aggregate sample of 75 Form 499s (See Exhibit VI) as follows: 15 from the 499Q November 1, 2001 filing, 15 from the 499Q February 1, 2002 filing, 15 from the 499Q May 1, 2002 filing, 15 from the August 1, 2002 filing, and 15 from the 499-A April 1, 2002 filing. We obtained the Form 499s for 74 of the 75 selected. We were informed by the USAC Data Collection Agent that one carrier, Filer ID #818420 did not submit a Form 499Q for the November 1, 2001 filing and the carrier's Form 499Q data was estimated. For each of the 74 Form 499s which were obtained, we performed the following steps:
  - a. We read the Form 499 for mathematical accuracy.
  - b. We agreed the carrier name, address and I.D. # to the USAC Carrier Master Database.
  - c. We noted that the service provider had certified the Form 499.
  - d. We noted the Form 499 had been read by the USAC Data Collection Agent for mathematical accuracy as noted by their sign off on the Form 499.
6. We inquired of USAC management, the USAC Billing and Disbursement Agent ("IBM"), and NECA, the procedures in place that provide reasonable assurance that revenue information obtained from the FCC Form 499 database is accurately summarized and reported to the FCC for the calculation of the contribution factor. We were informed by IBM that commencing in November 2002, IBM's process included comparing and agreeing the total revenue reported and the number of filers contained in the FCC Form 499 database received from NECA to the details provided by NECA. Prior to November 2002, the Form 499 data received from NECA was not validated by IBM. We were also informed by IBM that the revenues reported in the Form 499 database are reduced by the Local and International Revenue Exception ("LIRE") and de minimis exemptions and is reviewed by an IBM analyst before submission to the USAC Finance Manager. USAC management informed us that throughout 2002, the USAC Finance Manager validates the contribution data provided by IBM and inspects it for reasonableness by carrier type and historical data. We requested but were not provided with any written documentation to verify that these processes had taken place in 2002.
7. We obtained the quarterly filings that USAC management submitted to the FCC in 2002 and the supporting schedules and performed the following:

- a. We agreed the total end user revenue base amounts per the quarterly filings to the total end user revenue base amounts on the supporting schedules.
  - b. We selected 15 carriers, as selected in step 5., from the August 1, 2002 Form 499Q filing and agreed the revenue information on the supporting schedule to the carrier's actual Form 499Q.
  - c. Using the same sample of 15 carriers, we agreed the revenue reported on the Form 499Q to the carrier revenue on the supporting schedule.
8. We inquired of the USAC Data Collection Agent, the procedures in place that provide reasonable assurance that the contributor's historical data is current. We obtained the database that compares the historical data to the current data and selected the contributors with the 10 largest variations. We obtained supporting documentation, which included an analytical spreadsheet prepared by USAC Data Collection Agent, letters from the contributors, bankruptcy detail, and dissolution detail, for each of the 10 contributors selected and noted that explanations on the supporting documentation agreed to the explanation documented in the database.
9. We inquired of the USAC Billing and Disbursement Agent, the monthly procedures for preparing invoices and the quality control procedures to validate the accuracy of the invoices. We obtained the written monthly procedures and inquired of the USAC Billing and Disbursement Agent if they are in compliance with the documented desk procedures. We used the sample of 75 contributors selected in Contributor step 5. above and obtained the invoices for 73 of the contributors selected. We were informed by the USAC Billing and Disbursement Agent that 2 carriers, Filer ID's 806373 and 815012, had consolidated and were no longer invoiced under the carrier ID# selected. For the 73 invoices selected, we performed the following:
  - a. We proved the arithmetic accuracy of the invoices.
  - b. We agreed the carrier name, ID#, and revenue amount from the invoice to the applicable Form 499 filed by the carrier.
  - c. We read the invoice date noting that the invoices were sent out in the proper month.
  - d. We recalculated the invoiced amounts for each support mechanism based on FCC approved formulas and information from the Form 499 and noted that one invoice had a difference of \$2.
  - e. We agreed the subsequent carrier receipts to the invoices and obtained the available supporting documentation, including lockbox

documentation, checks, and wire transfers. We noted that the receipts were applied to the correct carrier account, without exception.

- f. We agreed the cash receipts to the daily bank feed from the bank for the days the cash receipts or wire transfers were received, noting no exceptions.
10. We obtained USAC management's criteria and procedures for adjusting contributor liability amounts (amounts billed and amounts due from contributors) or contributor account balances and performed the following:
    - a. We inquired of the USAC Billing and Disbursement Agent the procedures for adjusting contributor liability amounts and compared them to USAC management's criteria. We were informed by USAC management that their policies and procedures were in compliance with FCC rules.
    - b. Using a random sample generator, we selected 10 contributors (Exhibit VII) with revised or amended revenue amounts from their original or estimated filings and noted that the revenue amount that was used for the billings was the revised or amended amounts per the revised or amended Form 499.
  11. We inquired of USAC personnel the procedures performed when a contributor does not remit the required payment. We noted that USAC's collection actions included past due notices and forced netting if the receivable remains unpaid after 90 days. Forced netting allows USAC to discontinue disbursements to contributors with past due balances. These disbursements are applied to the balance due rather than disbursed until the contributor's balance is current. In addition, each month USAC provides the FCC with a list of non-collectible receivables that represent contributors who are more than 90 days past due. We inquired of USAC personnel if FCC Notices of Apparent Liability ("NAL") were issued in 2002 and were informed that USAC was not notified by the FCC that a NAL was issued in 2002.

We were informed that commencing in August 2002, USAC performs a management review of the top 20 contributors. Calls are made to the top 20 contributors and contents of these discussions are documented. USAC provided us with the management review documentation for the top 20 contributors for August, September and December 2002. We requested but were not provided with the management review documentation for October and November 2002. We were informed that for the remaining contributors there was no formal collection process in place in 2002 other than retaining copies of past due notices and recording inbound contributor phone calls. USAC personnel do not document the result of

collection actions taken, the reason for non-payment or the realizability of non-responder receivables other than for the top 20 contributors.

12. We obtained the monthly listing of non-collectible receivables that USAC sent to the FCC for February 2002 (the month that this process was implemented) through December 2002. We randomly selected 22 carriers (Exhibit VIII) consisting of 2 carriers from each month. We obtained for each carrier selected the available supporting documentation which consisted of the 90 day collection letter and agreed the carrier's past due amount per the 90 day collection letter to the carrier's past due balance in the Accounts Receivable ("A/R") system for the applicable month. We noted that for 2 carriers, Filer ID's 812066 and 815048, selected in July 2002, the past due amount per the 90 day collection letter did not agree to the past due amount per the A/R database by \$382,482 and \$327,638, respectively.
13. For each of the 73 invoices selected in step 9 above, we performed the following:
  - a. We obtained a detail of the subsequent cash receipts and supporting documentation, including wire transfer bank advices and check copies from the USAC Billing and Disbursement Agent and noted that each of the cash receipts was applied to the appropriate contributor A/R balance. We read the next immediate monthly contributor statement and noted that in each case the subsequent cash receipts were reflected on the statement.
  - b. We noted that the subsequent cash receipts obtained in step 13 a. are not identified by support mechanism. We were informed by the USAC Billing and Disbursement Agent that the monthly cash receipts are allocated across the support mechanisms using the ratio between mechanism demands to total program demand.
14. For each of the 73 invoices selected in step 9 above, we noted the time lag between the invoice date and the date the subsequent cash receipt was received by the bank.

We noted that 10 contributors, Filer ID's: 809342, 820423, 805038, 820850, 806727, 821190, 811019, 816734, 803890, and 805038, had past due balances and inquired of the USAC Billing and Disbursement Agent if late fees were assessed and were informed that late fees were assessed at an annual rate of 9%.

15. We inquired of the USAC Data Collection Agent if there were carriers that failed to submit FCC Form 499 by the due date for filings due in 2002. Using a random sample generator, we selected 10 carriers (Exhibit IX) who failed to file their 499Q in the 499Q filing due August 1, 2002. We

inquired if revenues were estimated for these carriers and billed. We noted that the carrier's revenues were estimated and only 8 of the carriers were billed. We were informed that the 2 carriers, Filer ID's 811776 and 819972 were not billed because they were determined to be exempt under the Limited International Revenue Exemption ("LIRE"). We read the carrier's subsequently reported 499Q data and noted that these carriers did qualify for the LIRE exemption.

16. We obtained and read USAC's G/L for 2002. We inquired of USAC management whether there were any funding excesses and/or shortages and were informed that there was funding excess for the Schools and Libraries Support Mechanism and no funding shortages during 2002.
17. We obtained from USAC accounting personnel, a schedule of all data collection expenses, by month, indicating direct expenses and allocated expenses. We noted that the expenses were allocated among the various support mechanisms using the program size allocator as defined by the Cost Allocation Manual ("CAM").

## PHYSICAL SECURITY/INFORMATION APPLICATION SAFEGUARDS

1. We inquired of USAC, NECA and IBM Information Technology (“IT”) management about the IT organizational structure at each location and the policies and procedures in place that cover information security, operations and backup and recovery. We inquired as to how these policies and procedures are communicated to IT personnel and were informed that the policies and procedures are accessible on each entity’s intranet site. In addition, IT personnel at IBM are required to sign an employment agreement that stipulates a requirement to perform their work in accordance with USAC’s policies and procedures. We observed two IBM IT personnel and four NECA IT personnel performing tasks in the data centers that consisted of daily maintenance and backup of the data center and regular day-to-day processing of batch and on line jobs. We noted that they were performed in accordance with the policies and procedures discussed with USAC IT management.
2. We obtained a copy of the IT environment and organizational structure from USAC, IBM and NECA IT management. We noted that incompatible duties and responsibilities were segregated.
3. We inquired of USAC, IBM and NECA IT management the procedures and controls in place that provide reasonable assurance that new applications and changes to existing USAC applications are appropriately authorized, tested, and documented. We were informed that the IT systems that are located at NECA follow NECA’s change management process whereas the IT systems located at IBM follow change control procedures that are embedded in IBM’s proprietary system development methodology. We read the test strategy, test plan and requirements at IBM noting that there are documented policies including procedures for IT personnel to follow for changes that are made to the system. We also read the change management database training presentation including the change management procedures and change request form noting that the training material followed IBM’s proprietary system development methodology. We discussed the procedures with IBM IT management and noted that guidelines for changes to the system were documented. We obtained and read the system development methodology, a completed system migration form, a blank and a completed change request form and a completed database non-scheduled update to production form and noted that the templates follow the documented systems development methodology.
4. We inquired of USAC and NECA IT personnel, the procedures and controls in place that provide reasonable assurance that access to production programs, data files, and online reports is limited to authorized personnel to prevent against unauthorized use, loss, or modification. We inquired of the procedures in place for auditing system access violations

and noted that a procedure exists whereby the system identifies and records any violations and that this information is reviewed by Data Security for follow up. We were informed that violations recorded by the system in 2002 were resolved and were due to authorized users who had forgotten passwords or user ID's. We obtained a copy of IBM's Customer Response Center ("CSR") file access list noting the users who have access to the system. We obtained a copy of the IBM's USF support staff phone list and compared the phone list to the CSR file access list noting that the users on the CSR file access list were valid employees of IBM's CSR Center. In addition, we obtained a list of users with access to the ORACLE database and noted user profiles.

5. We inquired of USAC, NECA and IBM IT management the process where modification of operating and security system software is appropriately authorized, tested, and implemented.

We noted that IBM supports the applications for USF billing, collections, and disbursement (BCD) processes and manages the user access logs and security violations related to those applications. We obtained from IBM IT management the user access logs and noted that the system administrators are responsible for reviewing, resolving and reporting any operating system issues that may occur.

We obtained from IBM IT management the security policies and procedures and list of user groups who have access to the USF operating system software and noted that access was given to employees who required it for job functionality. We also inquired and noted the procedures and controls that IBM performs to grant users access to the operating system. We obtained from IBM IT management and read a list of parameter settings and user groups for the Windows NT Network "Member" Servers USFAIRMCSAP41 and USFAIRMCSAP51. We noted that the Windows NT Network "Member" Servers are attached to the Windows NT Primary Domain Server (PDS). We requested but were unable to obtain a list of security settings on the PDS due to intellectual property ownership issues. We were informed by IBM IT Management that the PDS services companies other than USAC's Member Servers and contains security settings specific to IBM. IBM informed us that disclosing these settings would be in violation of their security policies.

We inquired of IBM the procedures in place that covers system development and maintenance. We noted that the procedures provide for approvals, authorizations and monitoring of any changes to operating system software and security software. We obtained the system development methodology document, a completed system migration form, a blank and a completed change request form and a completed database non-scheduled update to production form noting that the templates were consistent with the documented systems development methodology.

At NECA, we obtained from NECA IT Management and read the following documents: NECA Information Systems Migration Form, Information Technology Non-Schedule Updates to Production Data, and NECA Information Systems Request for Change Form.

6. We inquired of USAC, NECA and IBM IT management the process by which access to the operating and security system software is restricted and were informed that each employee security access rights are reviewed and approved by management before the users are assigned a Local Area Network (“LAN”) username and password. We noted that users are assigned unique usernames and passwords that restrict them to only applications and systems that are relevant to their job responsibilities. We observed two IT personnel performing their duties at IBM and noted that they only had access to the applications that were directly involved with their job functionality. We also observed two IT personnel at NECA and noted that they were performing their duties in accordance with their assigned roles and responsibilities.

At IBM, we obtained a copy of the security policy. We were unable to obtain the list of users who had access to the USF operating system. IBM IT Management informed us that the server is shared among engagements and contains multiple project interests for various clients and engagements. IBM noted that providing a list of users for the USF operating system might result in disclosing confidential information about other clients and engagements creating security concerns. We were informed by IBM IT Management that access is restricted to the operating system and that the USF BCD IT staff is restricted from making changes to the operating system, hardware or production environment. We observed one IT personnel performing various duties noting that they were performed in accordance with the policies and procedures discussed by IBM IT.

At NECA, we were informed that management approves personnel security access rights before the users are assigned a LAN username and password. We obtained a list of personnel with access to the USF operating system and noted that users on the list were authorized by NECA management.

7. We discussed with USAC, NECA and IBM IT management the process and procedures for restricting personnel access to the computer room. We were informed that personnel require key cards in order to gain access to the computer rooms. We observed personnel only with key cards accessing the computer rooms at IBM and NECA.
8. We discussed with USAC, NECA, IBM and Pearson Government Solutions (formerly National Computer Service (“NCS”)) IT management the process by which standards are maintained in the data centers and

- server rooms. We noted that any updates and changes to the data center and server rooms are submitted through the change management database and approved by management. We obtained the contracts (Service Level Agreements) between USAC management and NECA and IBM (“Agents”) and noted that the contracts define specific service requirements requiring the Agents to maintain and service the equipment held at their locations.
9. We inquired of USAC, NECA and IBM IT management the process by which users are granted access to applications and monitored and were informed that access logs are reviewed by IT management. We inquired about web/online access to resources and noted that access through dial up is restricted.
  10. We were informed by USAC management that USAC is in the process of developing a disaster recovery plan. We noted that management has successfully tested a fail over test plan. We obtained the backup procedures and disaster recovery plan from IBM and noted that procedures are documented and are tested regularly. We observed that IBM’s IT control procedures included recovery of the IT systems in their disaster recovery plan. We obtained NECA’s disaster recovery plan and noted that the plan documented the recovery of the IT systems at NECA’s facilities in Whippany, NJ. NECA performs testing annually and indicated that the plan was successfully tested between July 22, 2002 and July 26, 2002.
  11. We inquired of USAC, NECA and IBM IT management the master database change control process. We obtained and read the change management procedures at IBM and noted that a database migration form must be submitted and approved by NECA for any changes to the database.
  12. We inquired of USAC management the disclosure controls in place for all employees with access to USAC information at IBM and NECA. We obtained a copy of the employment contract from IBM and noted the clause that documents confidentiality of client information. We noted that this clause was not specific to USAC, but applied to all information that IBM personnel had access to.
  13. We inquired of USAC, NECA and IBM IT management the various systems and the process to effect a system change. Through inquiry and observation, we noted the ways in which the system is replicated and noted that the system that supports USF operations exists in a test system and a production system. We noted that only these two system instances exist at NECA and noted that the systems that support USF operations were in the same ‘state’ for the entire year and did not change in any

significant format for the year. We noted that NECA and IBM supported USAC throughout the year.

14. We inquired and were told that control procedures exist in the following areas at USAC, NECA and IBM:

- *Information Resource Strategy and Planning* - covering IS strategic plans, IS business plans, IS budgeting process, IS staffing and turnover, recruiting and training;
- *Information Systems Operations* - covering facilities management, capacity planning, performance monitoring, authorization of processing, job scheduling, processing control, output control, problem logging, tracking and reporting, problem escalation and resolution, help desk procedures;
- *Relationship with Outsourced Vendors* - covering vendor selection, vendor contracts, service level agreements, service level evaluation and monitoring, trading partner agreements;
- *Information Security Review* - covering security policies, security standards, data ownership, information security architecture, access control facilities, security administration, logical access, security logging and monitoring, physical access, environmental controls;
- *Business Continuity Planning* - covering data storage, backup and recovery procedures, disaster recovery planning, business continuity planning;
- *Application Systems Implementation and Maintenance* - covering project planning and management, project prioritization, project budgeting, design specification, purchased software specification, systems development methodologies, programming standards, program code review, programmer access, purchased software modification, testing, user acceptance, change control, production turnover, program documentation, user documentation.

## HIGH COST SUPPORT MECHANISM

1. We inquired of the USAC High Cost Support Mechanism Administrator (“NECA”) the procedures and controls in place to provide reasonable assurance that input data items are inspected for completeness and reasonableness. We observed that only authorized input is accepted for processing.
2. We inquired of NECA the controls in place to provide reasonable assurance that only one data submission is processed for each cost company and that no changes are made to an Eligible Telecommunications Carrier (“ETC”) High Cost data submission without proper documentation and authorization. We observed that only one data submission can be processed for a cost company and that changes can only be made by authorized personnel.
3. We inquired of NECA the process by which the ETC’s High Cost data is evaluated for misstatement. We observed that the USAC HCM process includes comparing the ETC’s High Cost data submission to ETC’s historical data.
4. We inquired of NECA the process and controls in place that provide reasonable assurance a post processing review of High Cost data is performed in accordance with management’s criteria to further provide reasonable assurance the reasonableness of High Cost results. We observed that a post processing review is performed.
5. We inquired of NECA the process and controls in place that provide reasonable assurance that the High Cost support is computed in accordance with FCC Rules and Regulations including Sections 54.309 through 54.313, as applicable, and management’s criteria. As described in High Cost step 7, we selected a random sample of 55 High Cost support payments and performed High Cost step 7a-7g noting that High Cost support payments are computed in accordance with FCC Rules and Regulations and management’s criteria.
6. We inquired of NECA the controls in place that provide reasonable assurance that only ETCs, as defined by the FCC Rules and Regulations Section 54.201 and determined by the various state Public Utility Commissions, that only incumbent local exchange carriers (“ILEC”) and Competitive ETCs (“CETC”) which have on file a certification with the FCC and USAC receive payments from the High Cost Support Mechanism. We obtained the data files and using a random sample generator selected 10 carriers (See Exhibit X). For each of the 10 carriers, we read their ETC designation and/or annual certification on file with USAC.

7. We inquired of NECA the process and controls in place that provide reasonable assurance that monthly High Cost disbursements are properly calculated and summarized, before information is electronically transferred to the USAC Billing and Disbursement Agent and then forwarded to the Investment Advisory Group (“La Salle Bank”) for payment.
  - a. Using a random sample generator, we selected 10 Long Term Support (“LTS”) payments (Exhibit X) from the LTS disbursement file for January through September 2002, and performed the following:
    1. We obtained the High Cost Disbursement Notifications for the carriers selected. We agreed the selected LTS payment amounts to the High Cost Disbursement Notifications, noting no exceptions.
    2. We agreed the selected LTS payment amounts to the LTS Actual Monthly Report, which is a print out of the approved disbursement file that is sent to the USAC Billing and Disbursement Agent for processing. We also proved the arithmetic accuracy of the report for May 2002, noting no exceptions.
    3. We obtained and read the LTS Actual Monthly Report for May 2002 and noted that carriers with a status of “N” in the “ETC” column, had zeros across the corresponding row, indicating no payments were made to that carrier. In addition, we agreed each “N” status carrier to the Eligible Carrier Status Report and noted that the carrier was not eligible to receive payment.
    4. Using the FCC approved formula, we recalculated the LTS payment amounts, noting no exceptions.
  - b. Using a random sample generator, we selected 10 Local Switching Support (“LSS”) payments (see Exhibit X) from the LSS disbursement file for January through September 2002, that included both NECA pool and non-pool participants, and performed the following:
    1. We agreed the selected LSS payment amounts to the LSS Actual Monthly Report, which is a print out of the approved disbursement file that is sent to the USAC Billing and Disbursement Agent for processing. We also proved the arithmetic accuracy of the report for April 2002, noting no exceptions.
    2. We obtained and read the LSS Actual Monthly Report for April 2002 and noted that carriers with a status of “N” in the “ETC” column had zeros across the corresponding row, indicating no payments were made to those carriers. In addition, we agreed each listed “N” carrier to the Eligible Carrier Status Report and noted that the carrier was not eligible to receive payment.

3. Using the FCC approved formula, we recalculated the LSS payment amounts, noting no exceptions.
- c. We performed the following procedures related to LSS True-Up adjustments:
1. We obtained the High Cost Mechanism 2000 true-up reports for the 10 carriers selected in step 7(b). We noted that 8 of the 10 carriers selected had true-up adjustments. The remaining 2 did not have true-up adjustments, as they were average costs companies.
  2. We proved the arithmetic accuracy of the reports, noting no exceptions.
  3. For the 8 carriers with adjusted amounts, we compared the monthly projection amount to the 2000 Y-T-D report and the forecasted amount to the new calculation documentation. Additionally, we recalculated the amounts and agreed applicable amounts to revised data submissions, noting no exceptions.
- d. Using a random sample generator, we selected 10 High Cost Loop (“HCL”) payments (Exhibit X) from the HCL disbursement file for January through September 2002, and performed the following:
1. We agreed the HCL payments for the selected carriers to the USF Actual Monthly Report, which is a print out of the approved disbursement file that is sent to the USAC Billing and Disbursement Agent for processing. We proved the arithmetic accuracy of the report for June 2002, without exception
  2. We inquired of USAC Data Collection Agent if any carriers received Safety Valve support or Safety Net Additive Support and were notified that no such payments were made in 2002.
- e. Using a random sample generator, we selected 10 High Cost Interstate Access Support (“HCIAS”) payments (Exhibit X) from the HCIAS disbursement file for January through September 2002, and performed the following:
1. We agreed the HCIAS payments for the selected carriers to the USF Actual Monthly Report, which is a print out of the approved disbursement file that is sent to the USAC Billing and Disbursement Agent for processing. We proved the arithmetic accuracy of the report for June 2002, without exception.
  2. We noted, without exception, that all selected carriers had filed a certification in accordance with FCC Rules and Regulations Section 54.809.

- f. We randomly selected 5 Forward Looking Cost Model Calculations (Exhibit X) from the disbursement schedule for October 2002, and performed the following:
  1. We obtained the calculations for the 5 selections and noted that the data used in the model was from the appropriate period.
  2. We obtained the payments made to the non-rural carrier selections and noted that the disbursements were calculated using both the Forward Looking Cost Model and the Hold Harmless methodology. We noted that the amount calculated by the Hold Harmless method, excluding LTS amounts, was reduced by \$2.00 in the average monthly per-line support. We also noted that the disbursements to the selected carriers represented the higher of these two amounts.
- g. Using a random sample generator, we selected 10 Interstate Common Line Support ("ICLS") payments (program began on July 1, 2002) (Exhibit X) from the ICLS disbursement file for July through September 2002, and performed the following:
  1. We agreed the ICLS payments to the ICLS Actual Monthly Report, which is a print out of the approved disbursement file that is sent to the USAC Billing and Disbursement Agent for processing, without exception.
  2. We noted that all selected carriers have filed a use certification in accordance with FCC Rules and Regulations Section 54.904, without exception.
8. We inquired of NECA the controls to provide reasonable assurance that disbursement notifications are inspected for accuracy and completeness prior to being sent to the ETCs. We obtained the disbursement notifications for the months of January through September 2002 and compared them to the approved disbursement files that are sent to the USAC Billing and Disbursement Agent for processing noting that 2 months did not agree. In May 2002, we identified a difference of \$4,093,785 that was related to Hargray, SPIN # 143001516. In August 2002, we identified a difference of \$42,297, which was due to a reversal error for Citizens, SPIN # 143022699.
9. We inquired whether the High Cost and Low Income Committee has authorized any audits of recipients of universal service support (Section 54.705 c (1)(iv)). We were advised that the High Cost and Low Income Committee had authorized three audits of High Cost recipients. We obtained copies of the three internal audit reports issued and noted the periods of the audits and the dates that the reports were completed.

10. For the CETCs receiving support, we noted that CETC data was reported by the carrier and certified by the carrier to be accurate and on a timely basis. We also noted that the support payments reflected the per line amount per the corresponding ILEC for the service area.
11. We obtained a summary of the High Cost amounts disbursed by USAC Billing and Disbursement Agent in the first quarter of 2002 and compared them to the corresponding amounts included in the projection USAC filed with the FCC for the first quarter of 2002, noting no exceptions. We also obtained and agreed a summary of amounts disbursed and/or processed through the NECA pool settlement system in 2002 to the amount authorized by USAC, noting no exceptions. We noted no amounts disbursed in excess of the amounts projected. We also obtained a summary of the High Cost amounts disbursed by USAC Billing and Disbursement Agent in the third quarter of 2002 and compared these amounts to the corresponding amounts included in the projection USAC filed with the FCC for the third quarter of 2002. We noted that a difference occurred due to the introduction of the Interstate Common Line Support Fund.
12. For the USAC filing relating to the first quarter of 2002, made in November 2001, we agreed the mechanism size projection totals for all High Cost and Low Income line items to a High Cost and Low Income supporting schedule, which were obtained from the Universal Service Web page under the FCC Filings section under Appendices, noting no exceptions. We also performed the following:
  - a. We proved the arithmetic accuracy of the schedules, noting no exceptions.
  - b. For three randomly selected ETCs, we compared the HCL amounts filed per the NECA October 2001 filing to the amounts USAC filed with the FCC for the 1st Quarter of 2002, noting 3 differences which were due to changes in the funding amounts that occurred after the October filing. These differences are detailed below:

Study Area Code	Amount per- October 2001 Filing	Amount per Q1 2002 FCC Filing	Difference
250282	\$56,784	\$56,140	(\$644)
270442	\$226,566	\$227,061	\$495
150118	\$32,007	\$31,444	(\$563)

## LOW INCOME SUPPORT MECHANISM

1. We obtained the Low Income Disbursement Report for the nine-month period ended September 30, 2002 and using a random sample generator we selected 40 carriers (See Exhibit XI for sample). For each of the 40 carriers selected, we performed the following:
  - a. We proved the arithmetic accuracy of the Low Income Disbursement Report, which is a print out of the approved disbursement file that is sent to the USAC Billing and Disbursement Agent for processing.
  - b. We agreed the actual Low Income Support payment, for Life Line, Link-up, and Toll Limitation Support, as entered into the Latest View Screen to the Form 497 submitted to USAC by the carrier, noting no exceptions.
  - c. We proved the arithmetic accuracy for each of the corresponding forms and read each Form 497, noting no exceptions.
  - d. We noted each Form 497 included an accompanying certification statement, signed by an officer employee of the company, noting no exceptions.
  - e. We agreed each monthly federal lifeline support amount claimed per subscriber to the NECA provided low-income state tables which detail the range of data acceptable for this line item for each state. We noted that the amount claimed was within range. We noted for those carriers that received support for eligible residents of Tribal Lands, the support amount was within range and did not exceed an additional \$25 per month.
  - f. We noted, without exception, for those carriers from our sample that received Link Up support, that each Link Up charge waived per connection line item, did not exceed the FCC limit of one half of the connection charge or \$30. We noted for those carriers that received Link Up support for eligible residents of Tribal Lands, the support amount did not exceed an additional \$70 per month.
  - g. We noted, without exception, that each local exchange carrier was an ETC by agreement of the selected carrier to the NECA provided Eligible Carrier Status List database.
2. For the 40 companies randomly selected in Low Income step 1, we agreed each low-income amount to the disbursement notification for the applicable month.
3. We proved the arithmetic accuracy of the disbursement notification reports for the 40 companies selected in Low Income step 1, and read them for

- agreement with the amount per the Low Income Disbursement report, noting no exceptions.
4. We obtained the disbursement authorization report for December 2002. For the 40 carriers selected in Low Income step 1, we performed the following:
    - a. We obtained the Low Income ETC Monthly Projection Algorithm and proved the arithmetic accuracy of the algorithm, noting no exceptions.
    - b. We obtained the Latest View print screens and the January payment file to support the true-ups and noted that the projections were trued up.
    - c. We obtained the Low Income Control report and agreed the trued-up disbursement amounts to this report, noting no exceptions.
    - d. We agreed the disbursements to the payment file. We obtained check copies and/or ACH support for each of the selected carriers, noting no exceptions.
  5. We inquired of NECA the controls in place that provide reasonable assurance that one and only one data collection form is processed for each active ETC on the Exchange Carrier Master File. For each of our selections, we obtained a copy of the Form 497 and compared it to the data stored on the system, noting agreement. In addition, we attempted to enter the Form 497 data and noted that the system would not process it, as it was a duplicate entry.
  6. We obtained the Low Income Non-Responder file for October 2002 from NECA, noting that this file represented all carriers who as of October 2002 had not responded in 6 months or more, and noted that there were 74 non-responders for that month. Using a random sample generator, we selected 20 non-responders (Exhibit XII) and compared the 20 non-responders selected to the October 2002 Disbursement Report noting that in accordance with guidelines, these carriers did not receive payments.

## RURAL HEALTH CARE SUPPORT MECHANISM

### *General*

1. We met with the Rural Health Care Administrator (“USAC RHC” or “NECA”) of the Rural Health Care Support Mechanism (“RHCSM” or “RHC Mechanism”) and discussed the critical processes related to the overall administration of the RHC mechanism. In addition:
  - a. We inquired of USAC RHC the procedures and key controls in place pertaining to the receipt and processing of RHCSM Funding Year 2002 applications and Funding Year 2001 invoices and documented the discussion in the form of process maps (included in Exhibit XIII).
  - b. We also obtained and read USAC’s organizational charts including outsourced functions.
  - c. We compiled a list of key personnel.

### *Understanding the Business*

2. We performed the following:
  - a. We met with the USAC RHC process owners for each relevant function or business process and discussed with them the controls and procedures pertaining to the overall administration of the RHCSM, which included the receipt, approval and processing of applications, invoices, and other applicable support mechanism related processes.
  - b. We observed the process flow for each applicable component process contained within the RHCSM related activities and applicable FCC forms including the following areas:
    - Application process
      - FCC Form 465 (Health Care Providers Universal Service - Description of Services Requested and Certification Form)
      - FCC Form 466 (Health Care Providers Universal Service - Funding Request and Certification Form)
      - FCC Form 466-A (Health Care Providers Universal Service – Services Ordered and Certification Form)
      - FCC Form 467 (Health Care Providers Universal Service – Receipt of Service Confirmation Form)
      - FCC Form 468 (Health Care Providers Universal Service - Telecommunication Service Provider Form)
    - Appeals

- Fund Management and FCC Reporting (including FCC rules changes review and implementation)
  - Invoices and support payments (credits) processing for RHC Manual Telecommunications Carrier Invoices
3. We obtained the written USAC policies and procedures covering the RHCSM and inquired if there was a process in place to provide reasonable assurance that they were in compliance, as applicable, with the FCC's Universal Service Rules and Regulations that apply to the RHCSM. We were informed that the USAC policies and procedures were in accordance with the Universal Service Rules and Regulations.

#### *Application Sample Selection*

4. For Funding Year 2002, we obtained a data file of all Funding Year 2002 approved applications as of November 22, 2002 (our test date). The total population consisted of 74 Funding Year 2002 applications with a total funding value of \$2.675 million.
5. We sorted and totaled the count and cumulative funding value of the 74 applications contained within the Year 2002 data file and compared the totals (74 and \$2.675 million, respectively) to the system database totals for Funding Year 2002, without exception.
6. We selected the 10 applications with the highest dollar values, representing 54.75% of the total value of Year 2002 applications included in our population. We randomly selected an additional 15 applications from the remaining population of 64 applications. The aggregate funding amount for our total sample selection of 25 applications was \$1.7 million (64.24% of the total Year 2002 applications funding value, processed as of our test date November 22, 2002) (see Exhibit XIV).
7. For each application selected in step 6 above, we obtained the FCC Forms 465, 466, 466-A, 467 and 468 and agreed, as applicable, the Health Care Provider ("HCP") name, number, address and work order number on each form to the corresponding information contained in the Year 2002 data file, without exception.

#### *Application Process*

8. We compared and agreed the funding amount per the data file for each application selected to the approved funding amount per the corresponding Funding Commitment Letter, noting no exceptions.
9. We obtained the procedures in place to provide reasonable assurance that FCC Forms 465 received are inspected timely for errors and omissions and we calculated for each of the selected applications, the

number of days between the receipt date of the corresponding Form 465 to the posting date per the corresponding HCP Posting letter.

10. We inquired of USAC RHC the controls in place to provide reasonable assurance that HCPs requesting support are determined to be eligible HCPs, and performed the following procedures for each application selected:
  - a. We recalculated the Maximum Allowable Distance (“MAD”) for eligible HCPs, using “Street Atlas 5.0” (the commercial software package used by USAC for this purpose) and noted 11 exceptions with differences of 4 miles or less and one exception, for Deering Health Clinic (HCP #10813) with a difference of 65 miles.
  - b. We noted, without exception, that each of the applicants selected was located in an eligible rural area.
11. We inquired of and observed the process in place to determine the eligibility of HCPs pursuant to the criteria in Section 54.601, such as public or not for profit entity. We noted the completion of the applicant self-certification indicating that they are eligible pursuant to the criteria set forth in Section 54.601.
12. We inquired of and observed controls that provide reasonable assurance that USAC RHC has observed that the telecommunication carriers providing services under the RHCSM are on the Telco SPIN list of the Rural Health Care Division.
13. We inquired of and observed controls that provide reasonable assurance that the HCPs receiving support adhered to competitive bidding requirements in accordance with FCC Rules and Regulations, as follows:
  - a. We noted, through inquiry and observation, that procedures were in place to document the date that the application was posted to the RHCSM web site (the “posting date”), which commences the 28-day Request for Proposal (“RFP”) posting requirement.
  - b. We obtained and read the RHCSM policies and procedures pertaining to the verification of application funding requests and the determination of the need for competitive bidding for existing, as opposed to new services.

For each of the 25 applications selected in Step 6 above, we noted compliance with the applicable requirements through inquiry, observation and completion of the following steps (13c through 13h):

- c. We noted that an original signed copy of the corresponding Form 465 was received and retained prior to allowing an HCP post on the web site.

- d. We noted compliance with the 28-day RFP posting requirement by agreeing the posting date per the supporting Packet Review Checklist to the web site posting date, noting no exceptions.
  - e. Of the 25 selected applications, 16 applicants had an existing telecommunications carrier contract. We obtained and read a copy of the supporting contract or tariff approval worksheet for bid exemption authorization, noting no exceptions.
  - f. We noted, without exception, that the service start date, as indicated on the Form 467, was outside of the 28-day competitive bidding period, by agreement of the Form 467 service date to the eligible start date per the web site posting.
  - g. We noted, without exception, completion of the applicable Form 466 Block 9: Certification.
  - h. We noted that either an original signed copy or an e-certification of the corresponding Form 465 was received and retained on file prior to the posting of the application to the web site. We agreed the service date on the approved Form 465 to the posting date per the supporting Packet Review Checklist, noting no exceptions.
  - i. Of the 25 selections, 9 selections had supporting schedules. We obtained the support schedules for each of the 9 selections and noted that the start date used to generate the schedule was the latter of the Service Start Date given by the customer on the Form 467, or the Eligible Support Start Date given on the Funding Commitment Letter, noting no exceptions.
14. We inquired of and observed controls that provide reasonable assurance that the method used to calculate support is in accordance with FCC Rules and Regulations, as follows:
- a. For the 5 highest dollar applications committed for funding, we recalculated and agreed the support amount per the applicable Form 466/468 worksheet, and noted that the calculation was performed in accordance with FCC requirements.
  - b. For each of the 5 applications selected in step a. above, we agreed the support amount as indicated on the supporting Form 468 worksheet to the approved Funding Commitment Letter, noting no exceptions.
15. We noted the type of service requested and approved in each of the 25 applications selected in Step 6 above per the Funding Commitment Letter, and noted, without exception, the eligibility of approved (telecommunication) services by agreement to the eligible services listed on the RHCSM web site.

### *Telecommunication Carrier Invoices*

16. We inquired of the USAC RHC the controls pertaining to the receipt and processing of telecommunication carrier invoices and application of support payments (credits). We performed the procedures in Rural Health Care steps 21 and 22 below pertaining to the receipt and payment of telecommunication carrier invoices.
17. We obtained a data file from USAC RHC of specified information (i.e., work order number, telecommunication carrier name and service provider identification number (“SPIN”), invoice number, and amount) pertaining to all Funding Year 2001 invoice line items processed as of September 30, 2002. Using a random sample generator, we selected a sample of 45 invoice line items (see step 19. below) for inspection. The total population of invoice line items from which our sample was selected consisted of 238 line items totaling \$11.9 million.
18. We sorted and totaled the number of invoice line items (238) and total dollar value (\$11.9 million) of Year 2001 invoices contained within the data file and compared the totals to the system database totals, without exception.
19. We used a random sample generator to select a sample (from the population of 238 invoice line items) of 45 invoice line items for review. The aggregate funding amount for our total sample selection of 45 invoice line items was \$1.3 million (see Exhibit XV).
20. For each of the 45 invoice line items included in our sample, we obtained and agreed the telecommunication carrier name and SPIN per the corresponding telecommunication carrier invoice and approved HCP Funding Commitment Letter to the data file, noting no exceptions.
21. For the 45 invoice line items selected, we inquired of and observed controls that provide reasonable assurance that invoices from telecommunication carriers agree to, and do not exceed, forecasted support amounts as follows:
  - a. We compared the month and amount of the approved line item selected to the corresponding HCP Application Support Schedule and noted, without exception, that the line item amount did not exceed the approved “support amount” for the same month per the Support Schedule.
  - b. We compared and agreed the line item amount to the corresponding approved line item amount in the Simplified Invoice Database, without exception.

- c. We obtained and read the corresponding Invoice Review Checklists for completeness of information required, noting no exceptions.
22. For each of the 45 telecommunication carrier invoices selected, we performed the following:
  - a. We agreed the Billed Telephone Number to the HCP Support Schedule, without exception.
  - b. We compared the invoice header and line item information to the corresponding information in the Simplified Invoicing Database, without exception.
  - c. We agreed the invoice amount per the RHCSM Manual Telecommunications Carrier Invoice to the RHCSM Invoice Reconciliation, without exception.
  - d. We totaled and agreed the total line items included on the invoice to the invoice total, without exception.
  - e. We identified the line items denied on the invoices selected and noted that, a denial reason code was indicated on the Supporting Invoice Review Checklist.
  - f. We noted that invoices were approved for payment by agreement to the Approved Support File sent to USAC Billings and Disbursement Agent, without exception.
  - g. We observed that the invoice amounts submitted to the USAC Billings and Disbursement Agent for payment processing agreed to the amount payable to the telecommunication carriers, by comparing the invoice amount to the corresponding credit posted to the telecommunication carrier's Universal Service account, noting no exceptions.
23. We inquired and observed the process by which USAC RHC processes and approves the return of funds from service providers, including the restoration of funding caps and the role of the Billing and Disbursement Agency group in the receipt and recording of returned funds.

*Fund Management/Performance in Accordance with Available Funds*

24. We inquired of and observed controls that provide reasonable assurance that the support mechanism-funding cap is not exceeded.
25. We noted that USAC is required to submit quarterly projections of projected demand to the FCC. We inquired as to the method used to determine required demand projections.

### *Outreach, Public Education, and Web Site*

26. We inquired of and observed the outreach and public education efforts for Fund Year 2002 and the plans for the future. We also inquired as to, and observed, the existence and contents of the outreach web site.

### *Rule Changes*

27. We inquired of and observed the process used by USAC RHC that provides reasonable assurance that all FCC rule changes are identified, documented and incorporated into the RHCSM funding process.

### *Appeals*

28. We inquired of and observed the process by which USAC RHC handles appeals from applicants pertaining to fund commitment adjustments and funding request denials.
29. We randomly selected 21 appeals (Exhibit XVI) (all 21 pertaining to Funding Year 2001) from the appeals log, and performed the following:
  - a. We obtained the application folders for each appeal selected and agreed the HCP name and appeal date from the appeals log to the folder.
  - b. We compared the date received on the appeal correspondence to the date of the Funding Commitment Letter and noted that the appeals were received within the 30 or 60-day appeal window, as applicable, without exception.
  - c. We noted the reasons for the applicant's appeal and obtained the underlying documentation supporting the appeal noting that the appeals were approved or denied in accordance with FCC Support Mechanism guidelines (e.g., eligible services, eligible service providers, discount calculations).

### *Other*

1. We inquired whether USAC and/or the Rural Health Care Committee had authorized any internal (or other) audits of RHCSM recipients of universal service support (Section 54.705(b) (1) (viii)) from January 1, 2002 to December 31, 2002. We noted that USAC Internal Audit had performed 9 internal audits of RHCSM recipients of universal support during this period. We obtained a copy of each of the RHCSM internal audit reports, noting the audit periods and the date each report was completed.

## SCHOOLS AND LIBRARIES SUPPORT MECHANISM

### *General Procedures*

1. We met with USAC management of the Schools and Libraries Support Mechanism (“SLSM” or the “S&L Support Mechanism”), and members of the Schools and Libraries Administrative Division (“USAC SLD”) and discussed the critical processes related to the overall administration of the “S&L” Support Mechanism. In addition:
  - a. We noted that SLSM is in Funding Year 2002 application period that covers the period July 1, 2002 through June 30, 2003.
  - b. We inquired of USAC SLD process owners the procedures and key control points pertaining to the receipt and processing of SLSM Funding Year 2002 applications and Funding Year 2001 invoices and documented the discussion in the form of process maps (included in Exhibit XVII).
  - c. We also obtained and read USAC and USAC SLD key personnel lists and organization charts, as well as those pertaining to functions outsourced to Pearson Government Solutions in Lawrence, Kansas

### *Understanding the Business*

2. We performed the following:
  - a. We met with the USAC SLD process owners for each relevant function or business process and discussed with them the controls and procedures pertaining to the overall administration of the S&L Support Mechanism, which included the receipt, approval and processing of applications, the receipt, approval and payment of Billed Entity Application Reimbursements (“BEAR”) or Service Provider Invoices (“SPI”) for which funding has been previously approved through the S&L Support Mechanism funding process, and other applicable SLSM processes.
  - b. We observed each relevant process contained within the SLSM related activities and applicable FCC forms including the following:
    - Application processes
      - FCC Form 470 (Schools and Libraries Universal Service - Description of Services Requested and Certification Form)
      - FCC Form 471 (Schools and Libraries Universal Service - Ordered and Certification Form)
      - Entity Block 4 and Modification Process

- Site identifier correction process
  - Service substitution process
  - Appeals
  - Returned Funds, including the recovery of erroneously disbursed funds
  - Fund Management and FCC Reporting (including FCC Rule changes review and implementation)
  - Invoice and support payments (credits) processing
    - FCC Form 486 (Schools and Libraries Universal Service - Program Receipt of Service Confirmation Form)
    - FCC Form 472 (Billed Entity Application Reimbursement Form)
    - FCC Form 474 (Service Provider Invoice Form)
    - FCC Form 500 (Adjustment to Funding Commitment and Modification to Receipt of Service Confirmation Form)
    - Service Provider Identification Number (“SPIN”) Changes
    - Invoice deadline exception request
- c. We used the information obtained from our observations in S&L step 2 to perform the S & L Support Mechanism procedures, steps 4 through 55.
3. We inquired of USAC SLD personnel the process in place to monitor compliance with the FCC’s Universal Service Rules and Regulations governing SLSM. We obtained and read a matrix prepared by USAC SLD personnel that compares the FCC Universal Service Rules and Regulations and amendments for SLSM to the written SLD policies and procedures.

*Controls over Preliminary Application and Invoice Processing – Subcontractor (Pearson Government Solutions) Review*

4. We visited the Pearson Government Solutions facility and inquired and observed the procedures and controls in place relating to the initial receipt and preliminary processing of applications and invoices. We performed the following:
- a. We inquired of Pearson Government Solutions personnel the controls in place pertaining to the receipt of funding applications to provide reasonable assurance that applications received during the filing “window” were appropriately identified, prioritized and segregated for funding purposes from applications received outside the filing “window”.

We noted that physical security and safeguards of the HeadsDown, PIN, and Online Forms Development systems located at Pearson Government Solutions in Lawrence, Kansas are in existence.

- b. We observed the procedures and controls in place pertaining to the receipt of applications and invoices, including BEARs and SPIs, and the tracking procedures utilized by Pearson Government Solutions that provide reasonable assurance that all applications and invoices received were tracked, scanned and data entered into the system.

#### *Application Sample Selection*

5. We obtained a data file from USAC SLD of specified information (i.e., applicant name, application number, billed entity number, category, state, committed amount, approved funding amount, Program Integrity Analyst (“PIA”) Determination Status and Pearson Government Solutions Status) pertaining to all Funding Year 2002 applications processed from April 16, 2002 (the first funding wave) through November 22, 2002, our selection date. We selected a sample of 47 Year 2002 applications as defined in step 7 below. The total population from which our sample was selected contained 27,128 applications with a total funding value of \$1.57 billion.
6. We sorted and totaled the number and cumulative funding value of the 27,128 applications contained within the application data file and agreed the totals (27,128 applications and \$1.57 billion, respectively) to the system database totals, noting no exceptions.
7. We summarized the file by application number and sorted the data from highest to lowest by application funding amount. We identified and extracted the ten applications with the highest dollar value, representing 27% of the total value of Funding Year 2002 applications included in our population. In addition, we calculated a sample size using a confidence level of 95% and a planned precision rate of 9% and randomly selected an additional 37 applications from the total remaining population of 27,118 applications. The aggregate funding amount for our sample selection of 47 applications was \$420.9 million (see Exhibit XVIII).
8. We obtained a database of 3,279 applications, totaling approximately \$189.6 million, processed after November 22, 2002 (our selection date as described in step 5 above) through year-end December 31, 2002. We noted that the 3,279 applications processed from November 22, 2002 through December 31, 2002 represented 10.7% of the total year 2002 applications processed. From this database, we selected an additional 2 applications with the highest dollar value, totaling \$27,239,700 (Exhibit XVIII). For these 2 applications, we read these applications and noted that they were eligible entities, the applicants were CIPA compliant, that the services they requested were eligible services and that their discount

- percentage was within the acceptable threshold, which was 90% for internal connections. We noted no exceptions.
9. We inquired of USAC SLD management, whether the SLSM system is designed with controls that recognizes and identifies applications that did not meet certain pre-programmed criteria's contained within the SLSM system and were told that these controls exist.
  10. Using the file obtained in step 5., above, we extracted all Funding Request Numbers ("FRN") pertaining to the 47 applications selected in S & L step 7. above and agreed the total funding value of the extracted FRNs to the total funding value of the selected applications.
  11. From the 457 FRNs contained within the population of 47 selected applications, we selected a sample of FRNs as follows:
    - a. From each of the 47 selected applications, we selected the FRN with the highest dollar value for that application. The aggregate value of the 47 FRNs selected totaled \$203.2 million, representing 48.3% of the \$420.9 million associated with the 47 selected applications.
    - b. Using a random sample generator, we selected an additional 20 approved FRNs from the remaining 410 FRNs associated with the 47 selected applications, for a total sample size of 67 FRNs.
  12. We obtained from USAC SLD personnel a data file of the application Block 4 (Discount Calculation Worksheet) data. We noted the completeness of the Block 4 data file by agreeing the total number of records contained in the data file to the total number of records contained in the SLD Oracle system.

*Ensuring That Only Eligible Entities Receive Program Support*

13. We obtained a copy of the PIA manual and noted the procedures that provide reasonable assurance that only schools and libraries that meet the definition of eligibility pursuant to applicable FCC regulations obtain funding through the SLSM.
14. We obtained a copy of the Requesting Organization SLC ("ROS") database maintained by the USAC SLD process owner containing information for the period January 1, 2002 through November 22, 2002. The information contained in the database included data on the number of students eligible to participate in the National School Lunch Program. We agreed the number of records in the copy of the ROS data file to the number of records in the ROS system database maintained by the USAC SLD process owner, noting no exceptions.

15. We compared and agreed the entity name and number in our copy of the ROS data file as of the date of the application approval to the Block 4 database obtained from the USAC SLD process owner, noting no exceptions.
16. We read each of the 47 selected applications referred to in S & L Step 7, including any notes posted in the USAC SLD process owners Simplified Tracking Application Review System ("STARS") which supported the modifications. We noted that none of the funding amounts for the 47 applications selected in step 7 had been modified (reduced) due to the identification of ineligible entities by PIA. We also obtained a data file that listed all applications in Funding Year 2002 with modified funding amounts due to the identification by the PIA of ineligible entities. From this file, we randomly selected a sample of 5 applications (Exhibit XIX) and performed the following:
  - a. We inquired of the rationale by which USAC SLD determined the entity to be ineligible and noted that they maintained records to support their decision.
  - b. We agreed the funding request and funding commitment amounts for each of the FRNs associated with the identified modified applications to the funding commitment display or the Funding Commitment Letter, noting no exceptions.
  - c. We recalculated and agreed the approved dollar amounts to the Funding Commitment Display, without exception, as follows:
    - i. If the dollars associated with the ineligible entity were identified, we noted that the identified dollar amount was appropriately applied to reduce or deny the FRN; or
    - ii. If the dollars associated with the ineligible entity were not identified, we recalculated the enrollment percentage applied to the FRN amount and noted that the correct dollar amounts were applied to reduce or deny the FRN.
17. For each of the FRNs associated with the 5 applications selected in S & L step 16., above, we performed the following:
  - a. For FRNs in which the dollars associated with ineligible entities were less than 30% of the total dollars requested for that FRN, we noted that the FRN was appropriately reduced by the dollar amounts associated with the ineligible entity.
  - b. We noted that the balance of the FRN containing discounts for eligible entities remained eligible to receive funding commitments.

- c. We noted that none of the applications selected per S & L step 16 above, had dollars associated with ineligible entities greater than 30% of the total dollars requested for that FRN.
- d. We noted that none of the applications selected per S & L step 16 above, had dollars associated with ineligible entities resulting in a potential modification amount of less than \$50.

*Discount Percentages Comply with FCC Criteria*

- 18. We obtained a copy of the PIA manual and noted that it contained procedures that requires the USAC SLD process owners to consider, in accordance with FCC regulations, the level of economic disadvantage of the school, school district, or school district where a library resides, and whether a school or library operates in an urban or rural location when determining program eligibility.
- 19. We inquired of the USAC SLD process owners whether requests for discounts on telecommunications and Internet services receive funding commitments as first priority followed by second priority requests for internal connections and were told that this was the case.
  - a. We read the FRNs in the data file obtained in S & L step 11 above, and noted that FRNs with internal connections and with a discount percentage below 90% were denied due to the funding cap. We noted no exceptions.
  - b. We inquired of USAC SLD process owners the controls in place that provide reasonable assurance that all applications for internal connections with a discount percentage below 90% are denied.
- 20. We used the sample of 47 FRNs selected in S & L step 11a. above, and performed the following:
  - a. We obtained the discount calculation formula, for each entity included in the 47 selected FRNs, and recalculated the level of economic disadvantage based on the percentage of students eligible to participate in the National School Lunch Program as indicated in the Block 4 data file. No exceptions were noted.
  - b. We noted that each entity included in the 47 selected FRNs determined their level of economic disadvantage based on the percentage of students eligible to participate in the National School Lunch Program. We inquired of the USAC SLD process owners the procedures and guidelines in place for those applicants choosing a federally approved economic disadvantage level measures other than the National School Lunch Program. USAC SLD informed us that all applications were evaluated using the National School Lunch Program.

- c. We compared the designation of rural or urban for each entity included in the selected FRNs to information contained within the Block 4 data file, noting agreement.
- d. We randomly selected a sub-sample of 20 (Exhibit XX) of the 47 selected FRNs and agreed the discount percentage per the FRN to the discount percentage per the SLD Discount Matrix, noting no exceptions.

*Program Support Is Committed Only for Eligible Services*

- 21. We used the combined sample of 67 FRN line items, selected in S & L step 11a. and 11b. above, and read each FRN line item noting, without exception, that if the applicant had requested support for telecommunications services or Internet access and the FRN was found to contain any requests for support for internal connections, the FRN was reclassified by the USAC SLD process owners as internal connection services and designated as second priority. For each of the 67 selected FRNs, we noted, without exception, that first priority contained requests for discounts relating to telecommunications services and Internet access and second priority contained request for discounts for internal connections. In addition, we performed the following:
  - a. We selected a sub-sample of 20 FRNs (Exhibit XXI) from the population of 67. For each of the selected FRNs, we noted that only the specific services as indicated on the eligible service database relating to the FRN category were included, without exception.
  - b. We compared and agreed the service and funding amount per each selected FRN to the approved service and funding amount per the corresponding Funding Commitment Letter or display (the online version of the printed data including in the Funding Commitment Letter), noting no exceptions.
  - c. We noted, by reading the STARS review notes for each FRN selected, that services were appropriately classified or reclassified, as applicable, without exception.
  - d. We obtained a copy of the PIA manual and noted that it described the procedures pertaining to eligible services. We noted compliance with these procedures for the selected sample of 47 FRNs in step 11a., above through completion of S & L steps 21 a. to 21 c., above.
- 22. We read the STARS review notes for each of the 47 FRNs selected in S & L step 11a., and noted that services were appropriately classified or reclassified. Of the 47 FRNs selected, one had internal connections that were initially classified as telecommunications services, but were appropriately reclassified to internet access.

23. We inquired as to the procedures employed for updating and tracking changes made to the Eligible Service and Products (“ESP”) database. We read the supporting documentation provided by USAC SLD process personnel which included history reports and word documents noting that the tracking system located within the database captured and tracked changes to the ESP database.
24. We inquired of the USAC SLD process owners whether training was provided to PIA staff covering eligible services and were informed that the training was provided and covered what services are eligible and how to access the list of eligible services. In addition, we obtained a copy of the PIA training manual and noted that it included training on eligible services.
25. We inquired of and observed the procedures and controls in place that provide reasonable assurance that, where USAC SLD has determined that certain services are conditionally eligible for funding, that such services are used only for the purposes set forth by SLD in the eligible services matrix on the USAC web site and that support mechanism funding is committed only for eligible services. For each of the FRNs selected in S & L step 21a., above, we compared and agreed each service receiving funding to the eligible service list.
26. We read a copy of the PIA manual and noted that it described the procedures pertaining to commitment of support only for eligible services.
27. We inquired of USAC SLD and observed the procedures and controls in place to provide reasonable assurance that: 1) FRNs which, upon inspection by USAC SLD, are found to contain less than 30% of ineligible services are adjusted to eliminate the ineligible services from the funding request, and 2) FRNs which, upon inspection by USAC SLD, are found to contain 30% or more ineligible services are denied in their entirety.
  - a. We compared and agreed the funding request and approved funding amounts for each of the 67 selected FRNs and noted that none of the selected FRNs had been modified. In addition, we obtained a query that identified all FRNs that had been modified for ineligible services and whose modifications were less than 30%. We randomly selected 5 FRNs (Exhibit XXII) and recalculated the percentage change between the funding request and committed amount and noted, without exception, that the modified amount was less than 30%. We noted that the FRN amount had been appropriately adjusted by comparison of the approved amount to the amount per the funding commitment display, noting no exceptions.
  - b. We performed the following:

- i. From the 457 FRNs included within the 47 applications selected in S & L step 11. above, we identified all denied FRNs with a zero dollar committed amount. We noted that none of the FRNs associated with our applications sample had FRNs that were denied. In addition, we obtained a database from USAC SLD representing all FRNs that were denied to date due to ineligible services from the entire population of applications. From the 2,186 denied FRNs, we used a random sample generator to select a sample of 20 denied FRNs (Exhibit XXII).
    - ii. For each of the 20 FRNs selected and denied due to ineligible services, we obtained the initial funding request, and noted the ineligibility of the service requested by comparing them to the eligible services found on the ESP database.
    - iii. For each of the 20 denied FRNs selected, we recalculated the percentage of ineligible services to the total funds requested and compared the percentage calculated to the supporting schedules and calculations provided by USAC SLD, and noted one exception. For FRN #798773, we were not provided with the supporting schedules and calculations to support the denial. However, we were informed by USAC SLD that this FRN had subsequently been approved upon further review.
  - c. We read a copy of the PIA manual and noted that it described the procedures pertaining to FRN denial.
28. We inquired of the Funding Year 2002 procedures for processing service substitutions, and performed the following:
- a. We obtained the service substitution log and randomly selected 10 service substitution applications (Exhibit XXIII). We were informed that the guidance for submitting a substitution service request on Form 471 changed effective August 14, 2002 to requiring the applicant to submit a letter requesting service substitution. We read each service substitution request and noted that the applicant properly submitted a completed request using either Form 471 or by submitting a letter requesting a service substitution, without exception.
  - b. We obtained the service substitution review and decision form for each of 10 service substitution applications selected and noted if the substituted service or equipment resulted in an increase in price and if the substituted service category was consistent with the original Form 470 posting and Request for Proposal. We noted one service substitution, for FRN #808504, which resulted in an increase in price. We also noted that the amount originally committed to that FRN did not increase as a result of the increase in price.

- c. In connection with the originally selected 47 applications, none had FRNs with service substitutions.

#### *Child Information Protection Act Compliance*

29. We inquired of USAC SLD the procedures and controls in place that provide reasonable assurance that the Year 2002 applicants have certified that they have complied with the requirements of the Child Information Protection Act ("CIPA"); that they are undertaking actions including necessary procurement procedures to comply with the requirements of CIPA; or that CIPA does not apply to them because they are receiving discounts for telecommunication services only.
30. For each of the 47 applicants selected in S & L step 7, we obtained a copy of the Form 486 (Receipt of Service Confirmation Form) and read it for completion of the block certification compliance requirements with CIPA and noted, without exception, that no funding approval had been granted without the certification for applications that are in their second year of SLSM funding.

#### *Vendor Invoices*

31. We obtained a data file from USAC SLD containing all Year 2001 invoices processed through our test date November 22, 2002 and other specified information including: invoice applicant ID, FRN, application number, invoice type, billed entity number, service provider identification number ("SPIN"), service provider name, status of payment, total undiscounted amount and approved (discounted) payment amount, date received and USAC sent dates. We selected a sample of 45 invoice line items (representing 45 service provider invoices) as described in S & L step 31a. and 31b. below. The total population of invoice line items from which our sample was selected consisted of 246,731 invoice line items totaling \$1.341 billion. Our sample of 45 invoice line items was selected as follows:
  - a. We extracted all of the negative line items (254 records, totaling \$1,585,299) pertaining to returned funds contained in the invoice data file.
  - b. We sorted the invoice data from the highest to the lowest approved payment amount and identified the top 5 dollar value invoice line items for part of our sample selection (Exhibit XXIV).
  - c. We calculated our sample size using a 95% confidence level and a planned precision rate of 9%. Using a random sample generator, we selected an additional sample of 40 invoice line items, totaling \$867,594 from the total remaining population of invoices. The

aggregate amount for our total sample selection of 45 invoices was \$57.8 million (see Exhibit XXIV).

32. For each of the 45 invoice line items selected, we obtained the corresponding BEAR or SPI and agreed the invoice dollar amount, FRNs, service provider name, SPIN and application number per the invoice data file to the invoice, noting no exceptions.
33. We agreed each of the 45 invoice line item dollar amounts approved for payment per the SLD Invoice Tracking System to the USAC Remittance Statement created by the approved payment file and sent to the USAC Billing and Disbursement Agent, noting no exceptions.
34. We obtained the four data files and data fields described in S & L step 34a. – 34d. below from USAC SLD pertaining to Year 2001 invoices through year end December 31, 2002. We sorted the number of records and totaled the dollar value (as applicable) contained within each of the four data files listed below, and agreed them, without exception, to the corresponding SLD system database totals.
  - a. We obtained a data file of all Year 2001 Funding Commitments by FRN (the "Commitment data file"). The fields contained in this data file were application name and number, FRN, SPIN, service provider name, approved discount rate, approved funding commitment amount, funding status, and Billed Entity Number ("BEN"). The total population of this data file contained 95,904 line items totaling \$2.2 billion.
  - b. We obtained a data file of the Invoice Approved Payment data by FRN (the "Invoice Payment data file") for Year 2001 invoices. The fields contained in this data file were application name and number, FRN, SPIN, service provider name, BEN, total undiscounted approved payment amount, and total approved (discounted) payment amount. The total population of this data file contained 246,731 FRNs totaling \$1.436 billion approved (discounted) payment amounts.
  - c. We obtained a data file of the Form 486 data for Year 2001 applications (the "Form 486 data file"). The fields contained in this data file were application number, FRN, Form 486 application ID, BEN, SPIN, service provider name, start date, and Pearson Government Solutions receipt date. The total population of this data file was 245,677 records.
  - d. We obtained a data file of Form 500 data for Year 2001 applications (the "Form 500 data file"). The fields contained in this data file were application number, FRN, SPIN, service provider name, application ID, FRN cancellation, commitment amount, revised commitment amount,

and received date. The total population of this data file was 5,307 records.

35. For each FRN we compared, the sum of the approved (discounted) payment amount, per the Invoice Payment data file, to the approved funding commitment, per the Commitment data file. We noted that for any excess payments identified the amount was properly recorded in the COMAD database. No exceptions were noted.
36. We extracted all FRNs with a positive approved payment amount from the Invoice data file and noted, without exception, that a Form 486 was submitted for each FRN, by comparing the Invoice data file to the Form 486 data file.
37. We compared FRNs per the Invoice Payment data file to the Form 500 data file noting that FRNs with an approved payment amount greater than zero were not cancelled on the Form 500 data file. We noted no exceptions.
38. We compared the discount percentage for each FRN in the Invoice Payment data file to the approved corresponding FRN discount percentage per the Commitment data file, noting no exceptions.
39. We noted that all FRNs with approved payment amounts, per the Invoice Payment data file, were listed as “Funded in Full” per the Commitment data file. We noted no exceptions.
40. We inquired of USAC SLD the process by which they identify and resolve error codes. We were informed that the identification is an automatic process and resolution is a manual process. For each of the FRN’s selected in S & L step 27 with error codes, we read the documentation maintained in the internal tracking system, as well as documentation USAC SLD received from third parties.
41. We inquired of the controls in place that provide reasonable assurance that changes in service provider selections (“SPIN changes”) included applicant certification that: (1) the SPIN change was allowed under its state and local procurement rules; (2) the SPIN change was allowable under the terms of the contract between the applicant and its original service; and (3) the applicant had notified its original service provider of its intent to change service providers, and performed the following:
  - a. We inquired of the procedures and controls in place that provide reasonable assurance that the amount of funding available for the new service provider is limited to the amount committed on the FRN. We randomly selected 15 service providers (Exhibit XXV) with SPIN changes and noted that additional payments were not made to the new

service provider until a SPIN change had been fully processed and recorded in the Oracle system.

- b. We inquired of the procedures and controls in place that provide reasonable assurance that USAC did not make additional payments on the FRN until the SPIN change was reviewed and either (1) approved and the SPIN was changed or (2) denied and that USAC verified that additional invoices were for services actually rendered to the applicant by the original provider. For each of the 15 service providers selected in S&L step 41a., we obtained the SPIN change documentation and noted that no invoices were paid until the SPIN number request was approved.
42. We inquired of USAC SLD the controls instituted to prevent vendors from being paid twice for the same invoice. We entered an invoice into the system that already existed and noted that the system denied processing of the invoice.
  43. Excluded from our initial sample selection in S & L step 31, were 12,156 invoice line items totaling \$94.9 million, processed from our test date of November 22, 2002 through year-end December 31, 2002 (representing 7.3% of the total Year 2001 invoices processed for the year). Using a random sample generator, we selected 10 invoice line items (Exhibit XXIV) and performed the following:
    - a. We noted, by reading the funding commitment display, that invoice dollar amounts approved for payment, on an FRN basis, did not exceed the funding commitment limits. No exceptions were noted.
    - b. We agreed the service provider name, FRN and description per the selected invoice to the approved funding commitment display, without exception.
    - c. We agreed each FRN line item amount per the invoice to the corresponding FRN line item amount per the USAC Remittance Statement, noting no exceptions.

#### *Returned Funds*

44. We inquired of USAC SLD the process by which USAC SLD receives, documents, processes and approves the return of funds from service providers, including the restoration of funding caps and the USAC Billing and Disbursements Agent's role in the receipt and recording of returned funds.
45. We obtained an electronic copy of the SLD Returned Fund Log (an Excel spreadsheet) containing all Year 2001 funds returned. We also obtained an electronic copy of the USAC Returned Fund Log (an Excel

spreadsheet) separately maintained by USAC's Billing and Disbursements Agent.

46. From the SLD returned funds log, we randomly selected a sample of 20 FRNs (Exhibit XXVI) and read each FRN noting that the returned funds for the selected FRNs were received, documented and the amounts were restored to the corresponding FRN. We compared and agreed the information recorded in the USAC Billing and Disbursement Agent's log to the SLD Returned Fund Log, noting no exceptions.
47. We obtained access to the SLD Returned Fund Table from the Oracle database (maintained by USAC) and agreed the records per Oracle database to the Returned Fund Log. We noted that all returned funds were restored back to the beneficiary funding amounts originally granted.
48. We performed the following for each returned fund selected from step 46. above:
  - a. We obtained remittance statements to support the initial disbursement of the funds subsequently returned. We agreed the FRN to the original USAC Remittance Statement and the funding amount returned to the initial approved disbursement of funds. For circumstances where only partial funding were returned, we noted that the amount returned was less than the original funding amount.
  - b. We agreed the FRN and returned funds amount per the SLD Returned Funds Log to the USAC Returned Disbursement form. We read and agreed information per the USAC Returned Disbursement Form to the corresponding supporting documentation including copies of original checks returned, remittance advices for reimbursement checks from service providers, or other authorized support for netted funds where the amount to be returned is netted against other Form 498 Universal obligation.

#### *Fund Management / Performance in Accordance with Available Funds*

49. We inquired of USAC management the procedures and controls utilized that provide reasonable assurance that the S&L Support Mechanism funding cap is not exceeded. We obtained an understanding of the controls in place to provide reasonable assurance that all Priority 1 service requests (telecommunication services and Internet access) are funded prior to Priority 2 service requests (internal connections) and that Priority 2 service requests are prioritized for funding based on the approved discount level of the applicant. We discussed the establishment of the contingency funding reserve maintained as a measure of protection for appeals or applications for which USAC may have made a processing error. In addition:

- a. We inquired of USAC management the controls in place that provide reasonable assurance that the amount and process for adjustment of the contingency funding reserve had been approved by USAC and the FCC Wireline Competition Bureau (formerly Common Carrier Bureau).
- b. We obtained a copy of and read the spreadsheet prepared by USAC management noting the documentation regarding funding cap and the funding of Priority 1 service prior to Priority 2 service requests.
- c. We discussed and observed the sampling methodology used by USAC management to determine anticipated service demands.

#### *Outreach, Public Education and Web Site*

50. We inquired of USAC management the outreach and public education efforts to date and the plans for the future. We also observed the outreach website. We noted that the USAC website is the parent site for the SLD outreach website.

#### *Rule Changes*

51. We inquired of USAC management and USAC SLD the process used by USAC SLD that provides reasonable assurance that all FCC rule changes are identified, documented, and incorporated into the SLD funding process.
52. We inquired of USAC management and USAC SLD the process by which they identified and reviewed the FCC rule changes that occurred during the period January 1, 2002 through December 31, 2002 for applicability to the SLD funding and approval process.

#### *Appeals*

53. We inquired of USAC SLD the process by which they handle appeals from applicants pertaining to fund commitment adjustments and funding request denials.
54. We obtained a data file of all appeals (the "Appeals data file") submitted since the inception of the S&L Support Mechanism. We extracted all Year 2001 and Year 2002 appeals into a separate file. To select our sample size, we used a 95% confidence level and planned precision rate of 9%. Using a random sample generator, we selected a total of 45 (22 from 2002 and 23 from 2001) appeals (Exhibit XXVII) from the total population of 13,131 appeals.
55. We performed the following for each of the 45 Year 2001 or Year 2002 appeals selected:

- a. We obtained the appeal folders for the selected appeal and noted, without exception, the applicant name and appeal date to the Appeals data file.
- b. We observed, without exception, that the appeal correspondence was received within the 30-day or 60-day appeal window from the date the Funding Commitment Letter was mailed.
- c. We documented the reasons for each of the selected appeals and read the underlying documentation supporting the appeal and noted that for those appeals where a decision has been rendered, the decision was in accordance with FCC program guidelines (e.g., eligible services, eligible entities, discount calculations).

## **DISBURSEMENT PROCESS**

1. We inquired of USAC Billing and Disbursement Agent the procedures in place covering the disbursement process.
2. We combined the disbursements selected by Support Mechanism from the High Cost steps 7a-g-50 disbursements, Low Income step 1-40 disbursements, Rural Health Care step 19-45 disbursements, S & L step 31-45 disbursements into one database totaling 180 disbursements. Using a random sample generator, we selected 45 disbursements (Exhibit XXIX) and performed the following:
  - a. We obtained a copy of the Form 498 for each of the 45 disbursements selected. We read each of the 45 Form 498s selected and noted if all the required fields were completed by the service providers. We noted that 7 of the 45 Form 498s selected had missing or incomplete information. The 7 Form 498s with missing information were SPIN #s: 143005607, 143005680, 143001422, 143000074, 143005607, 143004824, and 143001884.
  - b. We obtained the Form 498 instructions located on the USAC website and noted that the Form 498 must be completed by a service provider and be accompanied by a signed letter on the service provider company letterhead attesting to the accuracy of the information submitted to USAC. We read each of the 45 Form 498s selected and noted if they were accompanied by a signed letter on company letterhead, attesting to the accuracy of the information submitted, noting one exception for SPIN # 143001884.
  - c. We compared each of the service providers listed on the 45 disbursements selected to the Form 498 database and noted that the service providers are included in the database, noting no exceptions.
3. We inquired of the USAC Billing and Disbursement Agent the procedures pertaining to the receipt and processing of service provider invoices including the process that identifies invoices to be paid versus those invoices that are to be netted against the carrier obligation to the USF. We noted the process in place for debiting the service provider accounts for actual payments or netting against their obligation to the USF and how the service provider accounts are updated.
4. We obtained a master payment file from the (ABCD) Accounting, Billing, Collection and Disbursement System, which consisted of invoices approved for payment by NECA and disbursements made by USAC Billing

and Disbursement Agent for January 1, 2002 through December 31, 2002 and performed the following:

- a. We inquired of USAC Billing and Disbursement Agent the controls in place that provide reasonable assurance that payments are made timely and documented the discussion in a memorandum. We were informed that timely is defined as within 30 days of NECA approval.
  - b. Using the "master file," we extracted line items that are designated as SPIs into one file and those designated as BEARs into another file.
  - c. Using the "master file," we sorted the payments by BEARs and SPIs, then by Batch ID #. We observed the dates that the disbursements were sent to LaSalle Bank and noted that the batches were paid on a timely basis.
5. We inquired of USAC Billing and Disbursement Agent the process by which batches are approved for payment and the process by which they provide reasonable assurance that cash is available for disbursed funds.
  6. We obtained from the USAC Billing and Disbursement Agent a list of service providers who are contributors and had a net amount due to them at December 31, 2001. We randomly selected 10 service providers (Exhibit XXVIII) and noted for each service provider that the credit balances at December 31, 2001 were subsequently paid by March 31, 2002, noting no exceptions. We read the supporting documentation, which included a check copy or wire advice and noted the payee, amount and date.
  7. We inquired of NECA and IBM the controls in place that provide reasonable assurance that monthly disbursements from the High Cost Support Mechanism are properly authorized, in accordance with USAC management's criteria. We obtained the disbursement's authorization forms for the months January 2002 through September 2002 and read the forms for proper authorization, noting no exceptions.
  8. We obtained from the ABCD the HCL, LSS, LTS and IAS support payments for February 2002, May 2002, August 2002, and November 2002, the ICLS and HCM payment amounts for August 2002 and November 2002 and performed the following:

- a. For the months selected, we compared the total monthly support payments per the disbursement authorization form for pool and non-pool participants to the EC 2100 or PSPS 28 adjustment report for pool participants and to the disbursement data file for non-pool participants, noting the following differences:

Month	Support	Difference
February 2002	High Cost Loop	\$ 63,458
February 2002	Local Switching Support	\$ 22,309
May 2002	High Cost Loop	\$ 1,295,453
May 2002	Local Switching Support	\$ 4,051,488
August 2002	High Cost Loop	\$ 119,750
August 2002	Local Switching Support	\$ 40,336

- b. We inquired of NECA the controls in place that prevent a carrier from receiving a support payment twice, once through the NECA pool and then directly by USAC Billing and Disbursement Agent and were informed that there are preventative controls in place.
9. We inquired of NECA the controls in place that provide reasonable assurance that monthly disbursements from the Low Income Support Mechanism are properly authorized, in accordance with USAC management's criteria. We obtained the disbursement authorization forms for the months January 2002 through September 2002 and read the forms for proper authorization, noting no exceptions.
10. We obtained the Lifeline, Link-up, and Toll Limitation support payments for February 2002, May 2002, August 2002, and November 2002. For the months selected, we compared the total monthly support amount by type per the disbursement authorization forms for pool and non-pool participants to the PSPS28 for pool participants and to the disbursement data file for non-pool participants, noting no exceptions.
- a. We noted that for the months selected, USAC management properly authorized the funds transferred from USAC to NECA, and that the amounts did not exceed the total amounts due to carriers that are members of the NECA pool. We noted no exceptions.
- b. Using the sample of 40 carriers selected in Low Income step 1, we compared the support amount requested by each of the 40 carriers to the amount disbursed to each carrier by USAC for non-pool participants or by NECA for pool participants, noting no exceptions.
- c. We inquired of NECA the controls in place that prevent a carrier from receiving a support payment twice, once through the NECA pool and then directly by IBM and were informed that there are preventative controls in place.

11. We inquired of USAC management, USAC Billing and Disbursement Agent and NECA the procedures in place to inform USAC that the support payments authorized for payment were paid, and were informed that for payments to non-pool participants a monthly analysis of outstanding checks and payments is performed. We were informed that for payments to NECA pool participants there is no process in place to inform USAC that what they had authorized for payment has been paid.
12. We read a total of 25 randomly selected disbursements for administrative services (Exhibit XXX), from the administrative expense detail for the period of January 2002 through December 2002, for authorization, and noted no exceptions.
13. We inquired of USAC Billing and Disbursement Agent the procedures and controls in place for identifying and implementing the choice that carriers had made for either netting or non-netting of contributions against reimbursements for qualified universal service rendered to the Schools and Libraries Mechanism. Using the sample of 45 schools and libraries disbursement selected in S & L step 31, we read the Form 498 for each service provider and noted that 41 service providers elected no netting and 4 service providers elected netting. We noted that the 41 service providers that elected not to net did receive their payment. For each of the 4 carriers that elected to net, we agreed the disbursement credit to the carrier receivable balance. No exceptions were noted.
14. We compared the FCC third quarter 2002 projected demand filing to the summary of the amounts netted against contributions and/or disbursed directly to carriers for the third quarter of 2002 and noted that in total the amounts netted and/or directly disbursed did not in exceed the total FCC projected demand. We noted that by Support Mechanism, the amounts netted against contributions and/or disbursed directly to carriers for the High Cost, Low Income and Rural Health Care Support Mechanisms exceeded projected demand by Support Mechanism by \$6,173,000, \$7,694,000 and \$1,014,000, respectively.
15. Using the sample of 45 Rural Health Care disbursements selected in Rural Health Care step 19, we noted that 41 of the disbursements were netted and 5 disbursements were not netted. For each of the 41 disbursements that were netted, we agreed the disbursement credit to the carrier receivable balance. For the 4 disbursements that were not netted, we obtained the Form 498s and noted that the service provider elected not to net. We also noted that the 4 non-netters were not contributors to the Rural Health Care Support Mechanism.
16. We inquired of USAC Internal Audit whether any internal audits were performed in 2002 in the application, commitment, or disbursement areas and were informed that no internal audits were performed in these areas in 2002.

**Administrative Expenses (2001 versus 2002)**

High Cost Support Mechanism

<u>Account Caption</u>	<u>2002 Actual</u>	<u>2001 Actual</u>	<u>Variance</u>	<u>% Change</u>	<u>Explanation *</u>
Compensation and benefits	\$ 332,709	\$ 161,214	\$ 171,495	106.38%	Increase is due to hiring of new personnel.
Program administration	\$ 1,313,852	\$ 466,716	\$ 847,136	181.51%	Fund (ICLS).
USAC administrative	\$ 2,477,969	\$ 1,846,369	\$ 631,600	34.21%	

\* As Provided By USAC Director of Finance

**Administrative Expenses (2001 versus 2002)**

<u>Account Caption</u>	<u>Low Income Support Mechanism</u>				
	<u>2002 Actual</u>	<u>2001 Actual</u>	<u>Variance</u>	<u>% Change</u>	<u>Explanation *</u>
Compensation and benefits	\$ 279,577	\$ 109,309	\$ 170,268	155.77%	Increase is due to hiring of new personnel.
USAC administrative	\$ 608,811	\$ 373,714	\$ 235,097	62.91%	Direct allocation based on program size.
Billing and collection	\$ 409,159	\$ 326,608	\$ 82,551	25.28%	Direct allocation based on program size.

\* As Provided By USAC Director of Finance

**Administrative Expenses (2001 versus 2002)**

**Schools and Libraries Support Mechanism**

<b><u>Account Caption</u></b>	<b><u>2002 Actual</u></b>	<b><u>2001 Actual</u></b>	<b><u>Variance</u></b>	<b><u>% Change</u></b>	<b><u>Explanation *</u></b>
Personnel expenses	\$ 102,951	\$ 39,415	\$ 63,536	161.20%	Variance due to additional staff being hired and additional workshops and webcasts taking place for training and development.
Program administration	\$ 28,151,569	\$ 23,494,708	\$ 4,656,861	19.82%	NECA's program service expenses were higher in 2002 primarily due to systems development work taking place as a result of program changes that were outside the scope of the original contract.
USAC administrative	\$ 2,048,514	\$ 1,472,655	\$ 575,859	39.10%	Direct allocation based on program size.

\* As Provided By USAC Director of Finance

**Administrative Expenses (2001 versus 2002)**

**Rural Health Care Support Mechanism**

<b><u>Account Caption</u></b>	<b><u>2002 Actual</u></b>	<b><u>2001 Actual</u></b>	<b><u>Variance</u></b>	<b><u>% Change</u></b>	<b><u>Explanation *</u></b>
Program administration	\$ 2,565,716	\$ 2,062,896	\$ 502,820	24.37%	Increase due to hiring of new personnel.

\* As Provided By USAC Director of Finance

**Administrative Expenses ( Budget to Actual)**

<u>Support Mechanism</u>	<u>2002 Actual</u>	<u>2002 Budget</u>	<u>Variance</u>	<u>% Variance</u>	<u>Explanation*</u>
<b>High Cost</b>	\$ 6,851,456	\$ 8,715,300	\$ (1,863,844)	-21.39%	Variance is attributable to the following: administrative charges for NECA were 33% less than anticipated, and set aside for work not originally specified in the contract was 35% under budget due to delay in issuance of FCC order revising the contribution methodology. Less training took place during 2002 than budgeted.
<b>Low Income</b>	\$ 1,870,304	\$ 2,432,200	\$ (561,896)	-23.10%	Variance is primarily due to the fact that NECA's charges were 23% less than anticipated, and spending set aside for work not originally specified in the contract was 36% under budget due to delay in issuance of FCC order revising the contribution methodology.
<b>Schools and Libraries</b>	\$ 34,387,187	\$ 37,285,200	\$ (2,898,013)	-7.77%	Variance is primarily due to delay in issuance of RFP for expanded Schools and Libraries beneficiary audit, and actual audit costs were 74% under budget. Spending set aside for work not originally specified in the contract was 36% under budget due to the delay in the issuance of FCC order revising the contribution methodology.
<b>Rural Health Care</b>	\$ 3,083,149	\$ 3,190,900	\$ (107,751)	-3.38%	Decrease due to less audits in 2002 and more form development work in 2001.

\* As Provided By USAC Director of Finance

**Contributor - FCC Published List of Carriers Selection**

<b>#</b>	<b>Filer ID</b>	<b>Filer Name</b>
1	801030	Scott-Rice Telephone Company, Inc.
2	802101	Gearheart Comm Co. Inc. DBA Coalfields Telephone
3	802350	Webster Calhoun Cooperative Telephone Association
4	805434	Arizona Telephone Co.
5	805563	Badger Telecom, Inc.
6	806721	Bestline Communications, LP
7	806793	Northfield Telephone Co.
8	808446	Vernon Telephone Cooperative
9	808638	ALLTEL Communications of Nebraska, Inc.
10	809380	MCI WorldCom Communications, Inc.
11	813119	SCANA Communications, Inc.
12	817420	Louisiana RSA No. 8 Limited Partnership
13	818926	VoiceStream PCS III License Corp.
14	819628	World Network Communications, Inc.
15	820276	SCS Communications and Security, Inc.
16	820297	New York RSA 3 Cellular Partnership
17	821002	AT&T Wireless Services, Inc. Consolidated
18	821004	Natel, LLC
19	821526	MetroPCS Georgia, Inc.
20	821738	Superior Technologies, Inc

**Contributor - Non-Responders Selection**

<b>#</b>	<b>Filing</b>	<b>Filer ID</b>	<b>Filer Name</b>	<b>De Minimis</b>
1	2/1/2002	801846	Wellman Cooperative Telephone Association	Yes
2	2/1/2002	802266	Arlington Telephone Company	Yes
3	2/1/2002	809524	Manti Telephone Company	Yes
4	2/1/2002	812159	WCS Communications, Inc.	Yes
5	2/1/2002	815887	Alaska Telecom, Inc.	Yes
6	2/1/2002	818052	Paracom, Inc.	Yes
7	2/1/2002	819148	Glenwood Long Distance	Yes
8	2/1/2002	819742	Nathan Sherman Ent., Inc.	Yes
9	2/1/2002	821160	CAL-ORE Long Distance	Yes
10	5/1/2002	805719	Cambridge Telephone Company	Yes
11	5/1/2002	806538	Oakwood Telephone Company	Yes
12	5/1/2002	807288	C-M-L Telephone Cooperative Association	Yes
13	5/1/2002	808832	Berkmont Communications, Inc.	Yes
14	5/1/2002	811094	Procom Management Corp.	Yes
15	5/1/2002	819142	Toni M. Tolley	Yes
16	5/1/2002	819342	BK Marine, Inc.	Yes
17	5/1/2002	819528	Radio Dispatch Service, Inc.	Yes
18	5/1/2002	819997	Springcom, Inc.	Yes
19	5/1/2002	820482	North Texas Payphones, Inc.	Yes
20	8/1/2002	806499	Mobilpage, Inc.	Yes
21	8/1/2002	818930	B & B Telecom, Inc.	Yes
22	8/1/2002	819308	Teletec Communications, LLC	Yes
23	8/1/2002	820151	Quality One Technologies	Yes
24	8/1/2002	821184	Apogee Telecom, Inc.	Yes
25	8/1/2002	822154	Telesphere, Inc.	Yes
26	11/1/2002	804771	Rothsay Telephone Company, Inc.	Yes
27	11/1/2002	809839	Greg Ralphs	Yes
28	11/1/2002	819104	Paramount Payphone Eastern, LLC	Yes
29	11/1/2002	820173	Conversent Communications of New Hampshire, LLC	No
30	11/1/2002	820198	Top Phone Corp.	Yes

**Contributor - De Minimis Selection**

<b>#</b>	<b>Filer ID</b>	<b>Filer Name</b>
1	804453	Minnesota Valley Telephone Company
2	806541	Continental Telephone Company
3	808500	Atlantic Diversified Technologies, Inc.
4	809859	Pennsylvania Telephone Co.
5	812115	Phone Management Enterprises, Inc.
6	812205	Kentec Communications, Inc.
7	812227	Page One of Wyoming, Inc.
8	816074	Tri City 220 SMR
9	816710	A & K Pawn Shop, Inc.
10	817126	Telephone Answering Plus
11	818688	LRE, Inc.
12	819838	CMZ Communications, Inc.
13	820040	Maryland Public Payphones, Inc.
14	820416	M & C Paging
15	821070	Cam Digital, Inc.
16	822186	Worldwide Telecom
17	822236	Venture Telcom, LLC
18	817500	California Phones LP-06
19	816476	TGEC Communications Co., LLC
20	818596	John Blair DeJean

**Form 499 and Contributor Invoice Sample Selection**

<b>#</b>	<b>Filer ID</b>	<b>499 Selected</b>	<b>Carrier Name</b>
1	815012	November 2001 499Q Filing	Nextel West Corp.
2	820247	November 2001 499Q Filing	Palm, Inc.
3	818584	November 2001 499Q Filing	BCTC of Texas, LLC
4	803649	November 2001 499Q Filing	Rock Hill Telephone Company
5	818420	November 2001 499Q Filing	Telespectrum of Virginia, Inc.
6	805791	November 2001 499Q Filing	Frontier Communications of Pennsylvania, Inc.
7	808152	November 2001 499Q Filing	Coastal Utilities, Inc.
8	804438	November 2001 499Q Filing	Rural Telephone Service Company, Inc.
9	816670	November 2001 499Q Filing	Unity Communications, Inc.
10	818410	November 2001 499Q Filing	Waterloo MSA Limited Partnership
11	820950	November 2001 499Q Filing	SK Telink America, Inc.
12	820988	November 2001 499Q Filing	Time Warner Telecom of Oregon, LLC
13	805215	November 2001 499Q Filing	Iowa 8 - Monona Limited Partnership
14	801180	November 2001 499Q Filing	Cameron Communications Corporation
15	812058	November 2001 499Q Filing	ETS Telephone Company, Inc.
16	806313	February 2002 499Q Filing	Verizon New Jersey, Inc.
17	806373	February 2002 499Q Filing	Sprint/United Telephone - Southeast, Inc.
18	809342	February 2002 499Q Filing	Tel America of Salt Lake City, Inc.
19	817986	February 2002 499Q Filing	Advanced Nationwide Messaging Corporation
20	816744	February 2002 499Q Filing	Eschelon Telecom of Minnesota, Inc.
21	820149	February 2002 499Q Filing	RCN Telecom Services of Illinois, Inc.
22	820060	February 2002 499Q Filing	Madison River Long Distance Solutions, Inc.
23	811236	February 2002 499Q Filing	Operator Service Company
24	804117	February 2002 499Q Filing	Smithville Telephone Company, Inc.
25	821000	February 2002 499Q Filing	World Communications, Inc.
26	804609	February 2002 499Q Filing	Foothills Rural Telephone Coop. Corp., Inc.
27	820423	February 2002 499Q Filing	Cablevision Lightpath CT, Inc.
28	809467	February 2002 499Q Filing	Central Montana Communications, Inc.
29	802428	February 2002 499Q Filing	Northwest Iowa Telephone Company
30	819891	February 2002 499Q Filing	Stratos Telecom, Inc.
31	820722	May 2002 499Q Filing	ALLTEL Wireless Holdings, LLC
32	804483	May 2002 499Q Filing	Nevada Bell Telephone Company
33	805038	May 2002 499Q Filing	Citizens Telecommunications Company
34	820850	May 2002 499Q Filing	Zone Telecom, Inc
35	803890	May 2002 499Q Filing	GTE Pacifica, Inc.
36	806727	May 2002 499Q Filing	City of Brookings Telephone Fund
37	819238	May 2002 499Q Filing	Iowa Wireless Services, LP
38	814651	May 2002 499Q Filing	OTZ Telephone Cooperative
39	818486	May 2002 499Q Filing	Ohio RSA 5 Limited Partnership
40	803718	May 2002 499Q Filing	City of Ketchikan
41	821190	May 2002 499Q Filing	South Central Communications
42	811019	May 2002 499Q Filing	Centennial Benton Harbor Cellular Corp.
43	803166	May 2002 499Q Filing	West Iowa Telephone Company
44	802041	May 2002 499Q Filing	Hardy Telecommunications, Inc.
45	819680	May 2002 499Q Filing	Time Warner Telecom of New Jersey, LP

	<b>Carrier ID</b>	<b>499 Selected</b>	<b>Carrier Name</b>
46	804489	August 2002 499Q Filing	The Southern New England Telephone Company
47	820944	August 2002 499Q Filing	ALLTEL Ohio Limited Partnership
48	812403	August 2002 499Q Filing	Stratos Offshore Service Company
49	805302	August 2002 499Q Filing	Frontier Communications of Minnesota, Inc.
50	816734	August 2002 499Q Filing	Integra Telecom of Oregon, Inc.
51	821980	August 2002 499Q Filing	ComTech21, LLC
52	807774	August 2002 499Q Filing	USVI Cellular Telephone Company
53	812322	August 2002 499Q Filing	Loral SpaceCom Corporation
54	817698	August 2002 499Q Filing	OnePoint Communications - Colorado, LLC
55	815658	August 2002 499Q Filing	Highland Communications Corp.
56	806589	August 2002 499Q Filing	Butler Telephone Co., Inc.
57	817886	August 2002 499Q Filing	CenturyTel of the Southwest, Inc.
58	815252	August 2002 499Q Filing	ProPage, Inc.
59	801048	August 2002 499Q Filing	Wikstrom Telephone Company Inc.
60	802735	August 2002 499Q Filing	Victoria Cellular Corporation
61	803649	April 2002 499-A Filing	Rock Hill Telephone Company
62	803890	April 2002 499-A Filing	GTE Pacifica, Inc.
63	804483	April 2002 499-A Filing	Nevada Bell Telephone Company
64	805038	April 2002 499-A Filing	Citizens Telecommunications Company of Wes
65	806313	April 2002 499-A Filing	Verizon New Jersey, Inc.
66	806373	April 2002 499-A Filing	Sprint/United Telephone - Southeast, Inc. -
67	807774	April 2002 499-A Filing	USVI Cellular Telephone Company
68	809342	April 2002 499-A Filing	Tel America of Salt Lake City, Inc.
69	812322	April 2002 499-A Filing	Loral SpaceCom Corporation
70	815012	April 2002 499-A Filing	Nextel West Corp.
71	817698	April 2002 499-A Filing	OnePoint Communications - Colorado, LLC
72	817986	April 2002 499-A Filing	Advanced Nationwide Messaging Corporation
73	818584	April 2002 499-A Filing	BCTC of Texas, LLC
74	820247	April 2002 499-A Filing	Palm, Inc.
75	820722	April 2002 499-A Filing	ALLTEL Wireless Holdings, LLC

**Contributor - De Minimis Selection**

<b>#</b>	<b>Filer ID</b>	<b>Filing Amended/Revised</b>
1	803223	May 2002 499Q
2	803559	Nov 2001 499Q
3	805314	May 2002 499Q
4	808047	Nov 2001 499Q
5	806033	Aug 2001 499Q
6	814723	Aug 2001 499Q
7	803274	Nov 2001 499Q
8	821126	February 2002 499Q
9	818102	Nov 2001 499Q
10	803226	May 2002 499Q

**Contributor - Past Due Account Selection**

<b>#</b>	<b>Month</b>	<b>Filer ID</b>	<b>Carrier Name</b>	<b>Amount per Collection Letter</b>
1	February	820089	SBC Advanced Solutions, Inc.	\$ 7,998,472
2	February	817856	Dobson Cellular Systems, Inc.	\$ 2,705,545
3	March	817856	Dobson Cellular Systems, Inc.	\$ 4,054,764
4	March	814715	America's Tele-Network Corp.	\$ 2,607,369
5	April	814715	America's Tele-Network Corp.	\$ 2,637,441
6	April	817994	Network Communications International Corp.	\$ 2,190,759
7	May	814715	America's Tele-Network Corp.	\$ 2,668,649
8	May	817994	Network Communications International Corp.	\$ 2,364,898
9	June	814715	America's Tele-Network Corp.	\$ 2,699,613
10	June	812066	Lightyear Communications, Inc.	\$ 2,684,814
11	July	812066	Lightyear Communications, Inc.	\$ 2,684,814
12	July	815048	BellSouth Carolinas PCS, LLC	\$ 2,427,113
13	August	814715	America's Tele-Network Corp.	\$ 3,133,721
14	August	812066	Lightyear Communications, Inc.	\$ 3,067,296
15	September	814715	America's Tele-Network Corp.	\$ 3,536,618
16	September	813229	IDS Telcom, LLC	\$ 2,984,433
17	October	814715	America's Tele-Network Corp.	\$ 3,942,636
18	October	813229	IDS Telcom, LLC	\$ 3,577,266
19	November	814715	America's Tele-Network Corp.	\$ 3,970,044
20	November	808794	ATX Telecommunications Services, Ltd.	\$ 3,186,069
21	December	814715	America's Tele-Network Corp.	\$ 3,999,614
22	December	817994	Network Communications International Corp.	\$ 3,063,774

**Contributor - Failure to Submit 499Q's Selection**

<b>#</b>	<b>Filer ID</b>	<b>Filer Name</b>
1	808794	ATX Telecommunications Services, Ltd.
2	811776	IMPSAT - USA, Inc.
3	811146	Premiere Communications, Inc.
4	819972	Medley International teleport, Inc.
5	815471	D & E/ Omnipoint Wireless Joint Venture, LP
6	820620	USA Digital Communications, Inc
7	821252	LD Exchange.com, Inc.
8	815129	Saturn Telecommunication Services, Inc.
9	804822	Molalla Telephone Company
10	801957	Niagara Telephone Company

**A. Long Term Support Payment Sample Selection**

<u>SPIN</u>	<u>SAC</u>	<u>Carrier Name</u>	<u>Payment Month</u>	<u>Payment Amount</u>
143002364	421949	STEELVILLE TEL EXCH	March-02	\$ 42,498
143001498	230498	SALUDA MOUNTAIN TEL	August-02	\$ 13,441
143001715	310717	ONTONAGON COUNTY TEL	April-02	\$ 12,703
143001923	351113	BROOKLYN MUTUAL TEL	January-02	\$ 3,917
143001718	310725	SAND CREEK TEL CO	February-02	\$ 3,778
143001395	170210	VENUS TEL CORP	May-02	\$ 3,174
143002013	351271	PANORA COOP TEL ASSN	February-02	\$ 3,108
143001683	300664	WABASH MUTUAL TEL CO	September-02	\$ 3,107
143001884	341041	KINSMAN MUTUAL TEL	September-02	\$ 2,399
143001766	320839	YEOMAN TEL CO. INC.	July-02	\$ 948

**B & C. Local Switching Support Payment & Adjustment Sample Selection**

<u>SPIN</u>	<u>SAC</u>	<u>Carrier Name</u>	<u>Payment Month</u>	<u>Payment Amount</u>
143002614	532362	CANBY TEL ASSN	April-02	\$ 60,013
143002371	431965	ALLTEL OKLAHOMA INC	April-02	\$ 68,879
143001462	220368	HART TEL CO	January-02	\$ 73,036
143002453	442141	SANTA ROSA TEL COOP (see Note 1)	August-02	\$ 37,259
143001591	270431	CENTURY-NW LOUISIANA	February-02	\$ 36,911
143002168	371540	DILLER TEL CO	September-02	\$ 24,500
143001846	330962	UNION TEL CO	August-02	\$ 19,199
143001942	351147	DANVILLE MUTUAL TEL (see Note 1)	April-02	\$ 6,629
143001811	330912	FRONTIER-MONDOVI	February-02	\$ 8,252
143002611	532226	MIDVALE TEL EXCH -OR	January-02	\$ 4,590

**D. High Cost Loop Payment Sample Selection**

<u>SPIN</u>	<u>SAC</u>	<u>Carrier Name</u>	<u>Payment Month</u>	<u>Payment Amount</u>
143004786	472416	VERIZON N'WEST-ID	January-02	\$ 377,532
143001439	210335	NORTHEAST FLORIDA	August-02	\$ 91,347
143002446	442116	MUENSTER DBA NORTEX	August-02	\$ 88,732
143001346	150116	PATTERSONVILLE TEL	February-02	\$ 8,716
143001853	330971	W. WISCONSIN TELCOM	March-02	\$ 7,983
143009019	431979	CHEROKEE TEL CO	September-02	\$ 7,882
143001763	320830	TRI-COUNTY TEL CO	September-02	\$ 7,101
143002017	351276	PRESTON TEL CO	July-02	\$ 4,064
143002171	371545	EUSTIS ACQUISITION	April-02	\$ 1,440
143002341	421887	GRANBY TEL CO - MO	February-02	\$ 438

**E. Interstate Access Support Payment Selection**

<b>SPIN</b>	<b>SAC</b>	<b>Carrier Name</b>	<b>Payment Month</b>	<b>Payment Amount</b>
143004771	190233	CONTEL VA DBA GTE VA	January-02	\$ 2,997,666
143004769	542319	GTC OF CALIFORNIA	April-02	\$ 1,554,565
143001291	125113	NEW ENGLAND TEL-NH	March-02	\$ 156,718
143001552	250306	FRONTIER COMM.-AL	March-02	\$ 22,704
143002677	554432	CITIZENS NV-SOUTH	September-02	\$ 13,723
143002480	504449	NAVAJO COMMUN-UT	February-02	\$ 10,796
143001561	210318	FRONTIER COMM-SOUTH	February-02	\$ 9,941
143002031	359008	SOUTH SLOPE COOPERATIVE	July-02	\$ 7,148
143018621	359006	INDEPENDENT NETWORKS	August-02	\$ 682
143020811	359022	TCA	July-02	\$ 348

**F. Forward Looking Model Support Payment Selection**

<b>SPIN</b>	<b>SAC</b>	<b>Carrier Name</b>	<b>Payment Month</b>	<b>Payment Amount</b>
143004771	250293	VERIZON SO - AL	October-02	\$ 538,677
143002657	542334	ROSEVILLE TEL CO	October-02	\$ 304,737
143004771	260407	GTE-SO-KY	October-02	\$ 80,339
143009099	230491	NORTH STATE TEL CO	October-02	\$ 159,355
143001291	145115	NEW ENGLAND TEL VT	October-02	\$ 763,446

**G. Interstate Common Line Support Payment Selection**

<b>SPIN</b>	<b>SAC</b>	<b>Carrier Name</b>	<b>Payment Month</b>	<b>Payment Amount</b>
143002571	502287	UINTAH BASIN TEL	September-02	\$ 147,164
143001585	270425	CAMERON TEL CO - LA	September-02	\$ 84,242
143001370	170165	DENVER & EPHRATA	July-02	\$ 72,193
143001696	310679	BLOOMINGDALE TEL CO	July-02	\$ 23,596
143001282	100029	UNITY TEL CO., INC.	August-02	\$ 12,221
143002522	472232	DIRECT COMM-ROCKLAND	July-02	\$ 10,158
143002628	532387	NEHALEM TEL & TEL	September-02	\$ 7,453
143001804	330899	LA VALLE TEL COOP	August-02	\$ 7,026
143002007	351263	OGDEN TEL CO - IA	August-02	\$ 5,590
143001441	220338	QUINCY TEL CO-GA DIV	July-02	\$ 3,439

**Note 1>** Two carriers selected in Local Switching Support represent NECA non-pool members

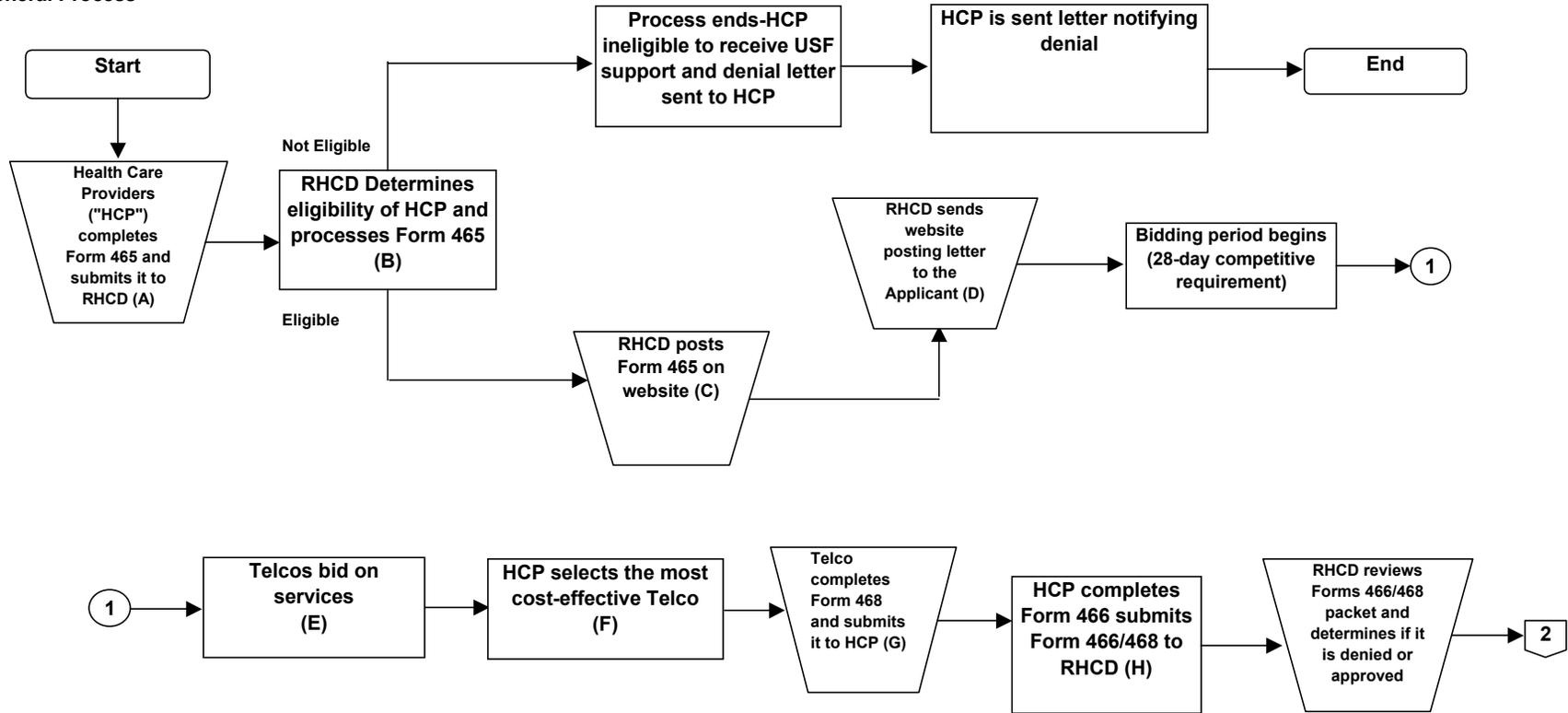
**LISM Form 497 Sample Selection**

<b>SAC</b>	<b>Selection Date</b>	<b>Lifeline \$</b>	<b>Link Up \$</b>	<b>TLS \$</b>	<b>PICC \$</b>	<b>Total \$</b>
330851	Dec-01	\$ 148	\$ -	\$ -	\$ -	\$ 148
330943	Dec-01	\$ 237	\$ 29	\$ -	\$ -	\$ 266
330954	Dec-01	\$ 176	\$ 2	\$ -	\$ -	\$ 178
421934	Dec-01	\$ 6	\$ -	\$ -	\$ -	\$ 6
532384	Dec-01	\$ 30	\$ -	\$ -	\$ -	\$ 30
155130	Jan-02	\$ 28,982	\$ -	\$ -	\$ -	\$ 28,982
250295	Jan-02	\$ 203	\$ -	\$ -	\$ -	\$ 203
270430	Jan-02	\$ 121	\$ -	\$ -	\$ -	\$ 121
340984	Jan-02	\$ 297	\$ -	\$ -	\$ -	\$ 297
351110	Jan-02	\$ 41	\$ -	\$ -	\$ -	\$ 41
371576	Feb-02	\$ 861	\$ -	\$ -	\$ -	\$ 861
140058	Feb-02	\$ 1,482	\$ 4	\$ -	\$ -	\$ 1,486
290575	Feb-02	\$ 6,984	\$ 32	\$ -	\$ -	\$ 7,016
391666	Feb-02	\$ 37	\$ -	\$ -	\$ -	\$ 37
411820	Feb-02	\$ 144	\$ 2	\$ -	\$ -	\$ 146
462181	Feb-02	\$ 220	\$ -	\$ -	\$ -	\$ 220
482255	Feb-02	\$ 8,187	\$ 668	\$ 2,113	\$ -	\$ 10,968
351297	Mar-02	\$ 669	\$ 13	\$ 47	\$ -	\$ 729
290559	Mar-02	\$ 142	\$ 2	\$ -	\$ -	\$ 144
300666	Mar-02	\$ 14,681	\$ 886	\$ 827	\$ -	\$ 16,394
554432	Mar-02	\$ 182	\$ -	\$ 11	\$ -	\$ 193
330877	Apr-02	\$ 108	\$ -	\$ -	\$ -	\$ 108
432010	Apr-02	\$ 532	\$ (53)	\$ -	\$ -	\$ 479
452175	Apr-02	\$ 119	\$ -	\$ -	\$ -	\$ 119
391674	May-02	\$ 645	\$ 30	\$ 83	\$ -	\$ 758
351173	May-02	\$ 178	\$ -	\$ -	\$ -	\$ 178
361401	May-02	\$ 364	\$ -	\$ -	\$ -	\$ 364
522427	May-02	\$ 895	\$ 22	\$ -	\$ -	\$ 917
230471	Jun-02	\$ 48,307	\$ 113	\$ -	\$ -	\$ 48,420
330956	Jun-02	\$ 2,011	\$ 13	\$ -	\$ -	\$ 2,024
341026	Jun-02	\$ 1,000	\$ 43	\$ -	\$ -	\$ 1,043
361499	Jun-02	\$ 63	\$ -	\$ -	\$ -	\$ 63
391650	Jun-02	\$ 2,896	\$ 170	\$ -	\$ -	\$ 3,066
411827	Jun-02	\$ 173	\$ 10	\$ 2	\$ -	\$ 185
542332	Jun-02	\$ 8,081	\$ 526	\$ -	\$ -	\$ 8,607
230497	Jul-02	\$ 354	\$ -	\$ -	\$ -	\$ 354
381447	Jul-02	\$ 12,612	\$ 328	\$ 420	\$ -	\$ 13,360
522412	Jul-02	\$ 7,665	\$ 418	\$ -	\$ -	\$ 8,083
535163	Jul-02	\$ 217,198	\$ 3,428	\$ 1,381	\$ -	\$ 222,007
340993	Aug-02	\$ 153	\$ -	\$ -	\$ -	\$ 153
<b>Total</b>		<b>\$ 367,184</b>	<b>\$ 6,686</b>	<b>\$ 4,884</b>	<b>\$ -</b>	<b>\$ 378,754</b>

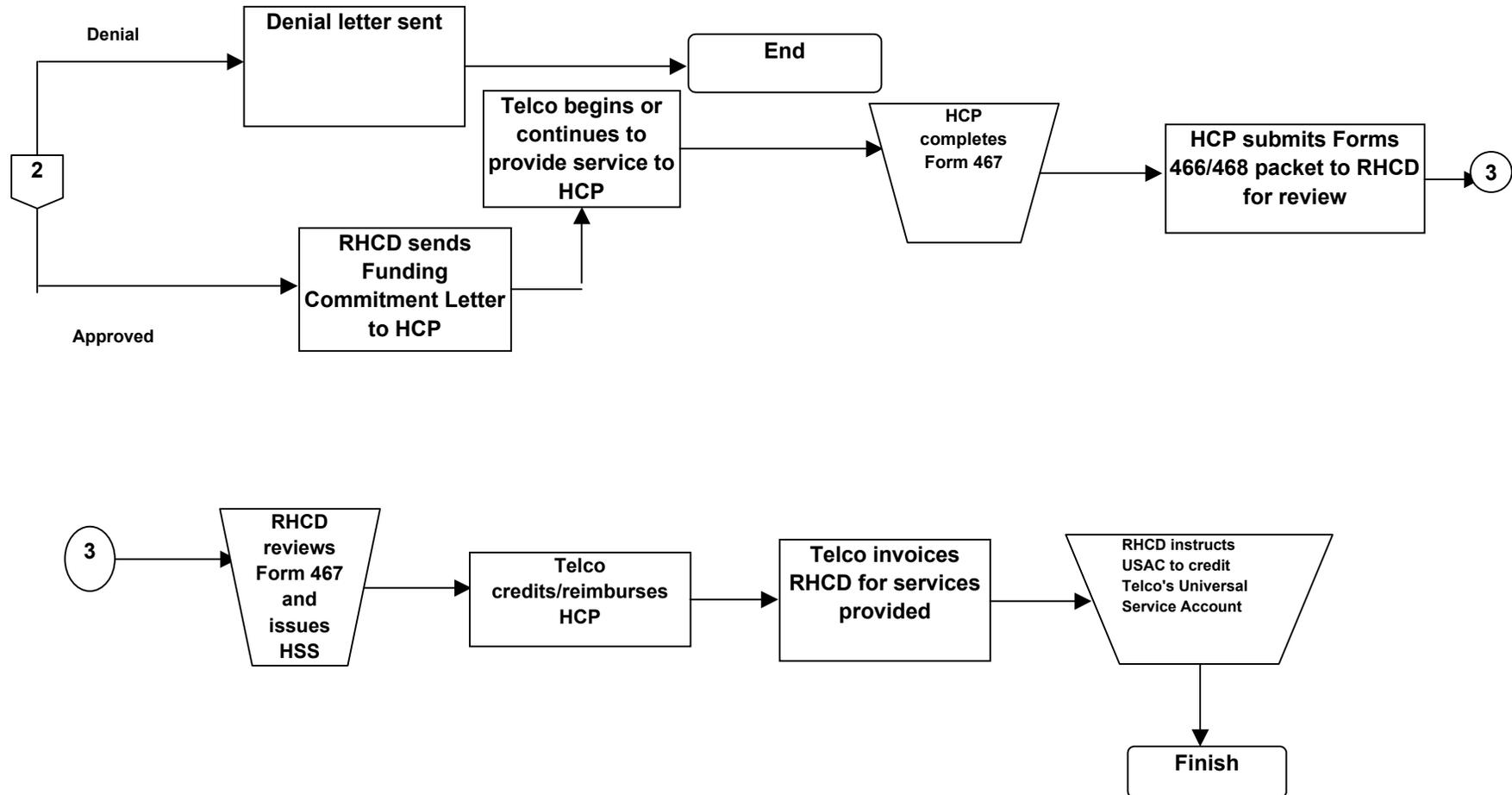
**Low Income - Non-Responder Selection**

<b>#</b>	<b>SPIN</b>	<b>SAC</b>	<b>Month</b>
1	143004780	250281	October-02
2	143001539	250286	October-02
3	143004771	260407	October-02
4	143004771	260410	October-02
5	143001783	330860	October-02
6	143001916	351101	October-02
7	143001939	351139	October-02
8	143001954	351169	October-02
9	143001975	351209	October-02
10	143001984	351228	October-02
11	143002011	351269	October-02
12	143002748	381616	October-02
13	143005109	391676	October-02
14	143002263	401704	October-02
15	143002319	411852	October-02
16	143002347	421908	October-02
17	143002362	421942	October-02
18	143002483	462178	October-02
19	143000667	529001	October-02
20	143002713	643300	October-02

**Rural Health Care  
General Process**



**Rural Health Care  
General Process, Continued**



Rural Health Care  
General Process, Continued

(A) All HCPs must complete Form 465 (Description of Services Requested and Certification Form). Form 465 certifies that the HCP meets the program's eligibility requirements. HCPs that want to apply for telecommunications discounts for services provided under a preexisting contract must also submit Form 465, describing the services being received. Each HCP is assigned a HCP number. Before assigning a HCP number, RHCD verifies that the HCP is located in a rural area. The HCP number is a required field on all forms. Consortia may be formed for the purpose of negotiating with telecommunications carriers; however, a separate Form 465 must be completed for each HCP location.

(B) Once Form 465 is received, RHCD verifies the HCP's eligibility. After RHCD verifies the HCP's eligibility, RHCD determines the closest large city which must be within the same state with a population of 50,000 or more and calculates the HCP's maximum allowable distance ("MAD"). The MAD is defined as the distance from the HCP to the far side of the closest large city. The MAD (minus the Standard Urban Distance ("SUD")) is the maximum circuit distance RHCD will support for mileage sensitive charges. An "approved" Form 465 indicates that the HCP is eligible to participate in the Rural upon review of the HCP's Form 466/468 "packet".

(C) If RHCD approves the HCP as an eligibility entity, RHCD posts the HCP's Form 465 and MAD on USAC's web site. The posting serves as an indicator to telecommunications carriers to bid on the provision of services. The posting also indicates whether the HCP is requesting support for new service or services the HCP is already receiving.

(D) When the HCP's request for services is posted on the website, RHCD mails the HCP a letter to confirm posting. The posting date indicates the 28-day competitive bidding process. The 28-day waiting period does not apply to existing contracts in place on or before July 10, 1997 or to contracts approved in a prior funding year and still in effect. If the applicant has an existing contract, the HCP may continue with the application process immediately and complete a Form 466 (Services Ordered and Certification Form). If an HCP is unsure whether a contract qualifies as preexisting, according to the program rules, the HCP can call the Customer Service Support Center at 1-800-229-5476 and ask to speak to an authorized USAC representative.

(E) The web site posting allows telecommunications carriers to review service requests. Once a service request is posted on the RHCD website, a HCP may choose to issue, without the coordination of RHCD, its own request for proposal (RFP) for telecommunications services. Concurrently, a telecommunications carrier is permitted to bid on requested services either in response to the website posting or the RFP (if applicable). Telecommunications carriers can contact an HCP directly to negotiate the rates and conditions of providing the requested services. RHCD is not involved in contract negotiations between HCPs and telecommunications carriers. HCPs are not required to wait for telecommunications carriers to contact them after Form 465 has been approved and posted on the RHCD website. Rather, HCPs are encouraged to contact and discuss their agreement to purchase services with a carrier.

A HCP violates the 28-day competitive bidding requirement by:

- (1) entering into any agreement to obtain telecommunications services OR
- (2) signing a Form 466 before completing the 28-day posting period.

(F) In choosing a telecommunications carrier, a HCP must consider all bids submitted and select the most cost-effective method. The most cost effective method is defined by the FCC as the method of least cost after consideration of the features, quality of transmission, reliability, and other factors relevant to choosing a method of providing the required services.

(G) The telecommunications carrier is responsible for completing a Form 468. The Form 468 verifies the type of services ordered and identifies the mileage-based charges and/or provides data necessary to support a more comprehensive rate comparison. The telecommunication carrier signs the Form 468 and sends it to the HCP. RHCD requires an original signature-not a photocopied signature-on all application forms,except the 468. If more than one telecommunications carrier is providing service to an HCP, a separate Form 468 is required from each telecommunications carrier.

(H) Upon receipt of Form 468 from the telecommunications carrier, the HCP mails all packet document (Forms 466 and 468) to RHCD for review. RHCD will not process Form 466 without an accompanying Form 468. An HCP with an existing contract for eligible services that was signed on or before July 10, 1997 or approved in a prior funding year is exempt from the 28-day waiting period. However, the HCP is still required to submit all forms to qualify for support. RHCD reviews the packet for accuracy and completeness.

**RHCSM Year 2002 Application Sample Selection**

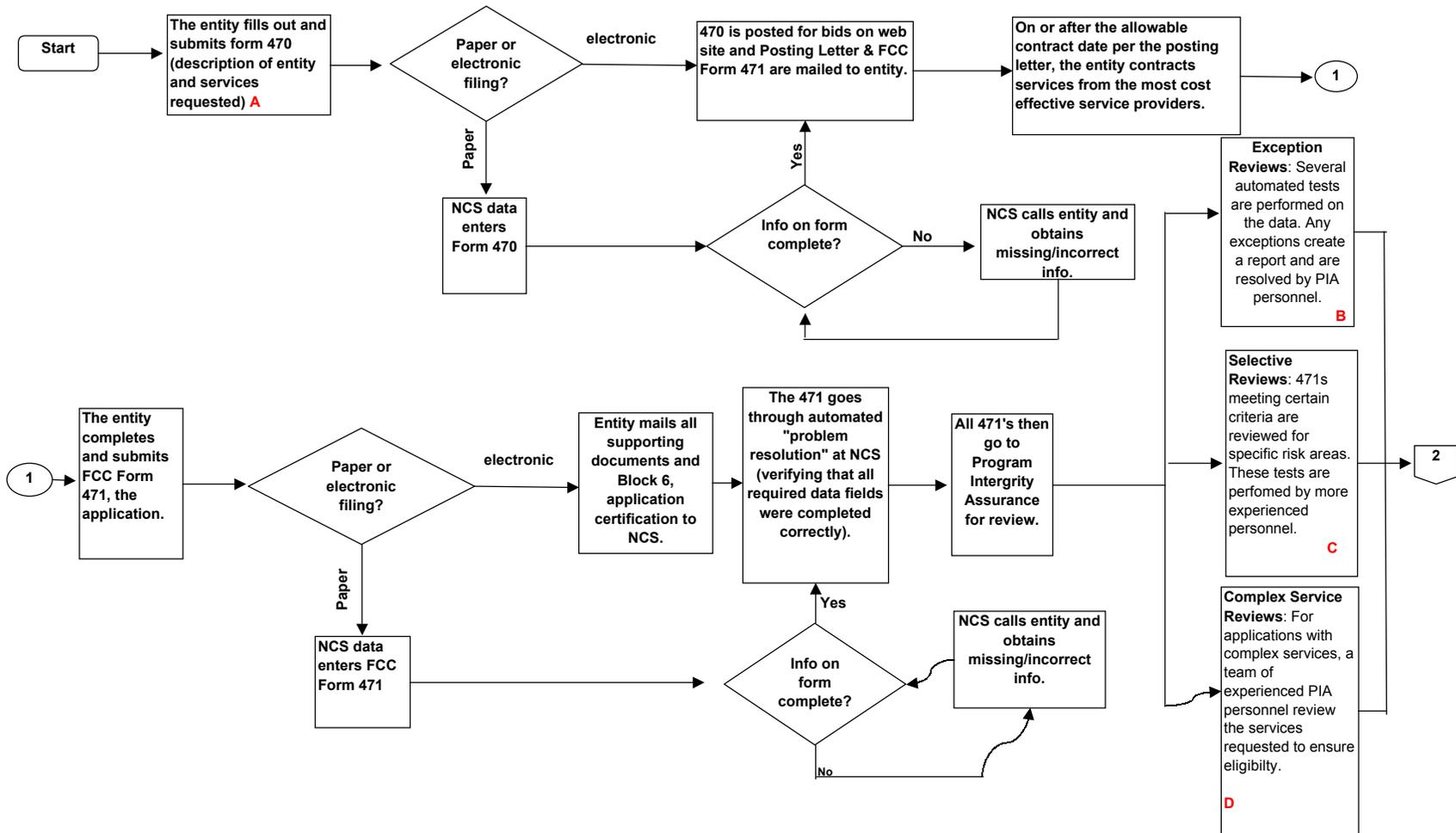
<b>#</b>	<b>HCP #</b>	<b>HCPName</b>	<b>State</b>	<b>Funding Year</b>	<b>Support Amount</b>
1	11197	Kodiak Area Native Association	AK	2002	\$ 206,624
2	10810	Maniilaq Medical Center	AK	2002	158,004
3	10811	Ambler Health Clinic	AK	2002	137,493
4	10812	Buckland Health Clinic	AK	2002	137,493
5	10813	Deering Health Clinic	AK	2002	137,493
6	10814	Kivalina Health Clinic	AK	2002	137,493
7	10815	Kobuk Health Clinic	AK	2002	137,493
8	10249	Maniilaq Association - Kiana Health Clinic	AK	2002	137,493
9	10816	Noatak Health Clinic	AK	2002	137,493
10	10817	Noorvik Health Clinic	AK	2002	137,493
11	10044	Ketchikan General Ho	AK	2002	111,264
12	11198	Old Harbor Health Cl	AK	2002	36,884
13	10807	Payson Regional Medi	AZ	2002	9,396
14	10903	Osceola Community Ho	IA	2002	11,705
15	10305	Greater Staples Hosp	MN	2002	2,991
16	11173	MeritCare Clinic - B	MN	2002	21,239
17	10809	MeritCare Clinic - D	MN	2002	7,937
18	10809	MeritCare Clinic - D	MN	2002	7,937
19	11178	MeritCare Clinic - P	MN	2002	11,483
20	10900	Olson Medical Clinic	MN	2002	4,468
21	12546	Braymer Clinic	MO	2002	2,155
22	12544	Northwest Health Ser	MO	2002	1,308
23	11175	MeritCare Clinic - L	ND	2002	14,295
24	10904	Marshall County Medi	SD	2002	6,048
25	10705	Lincoln County Prima	WV	2002	4,943
<b>Total</b>					<b>\$ 1,718,624</b>

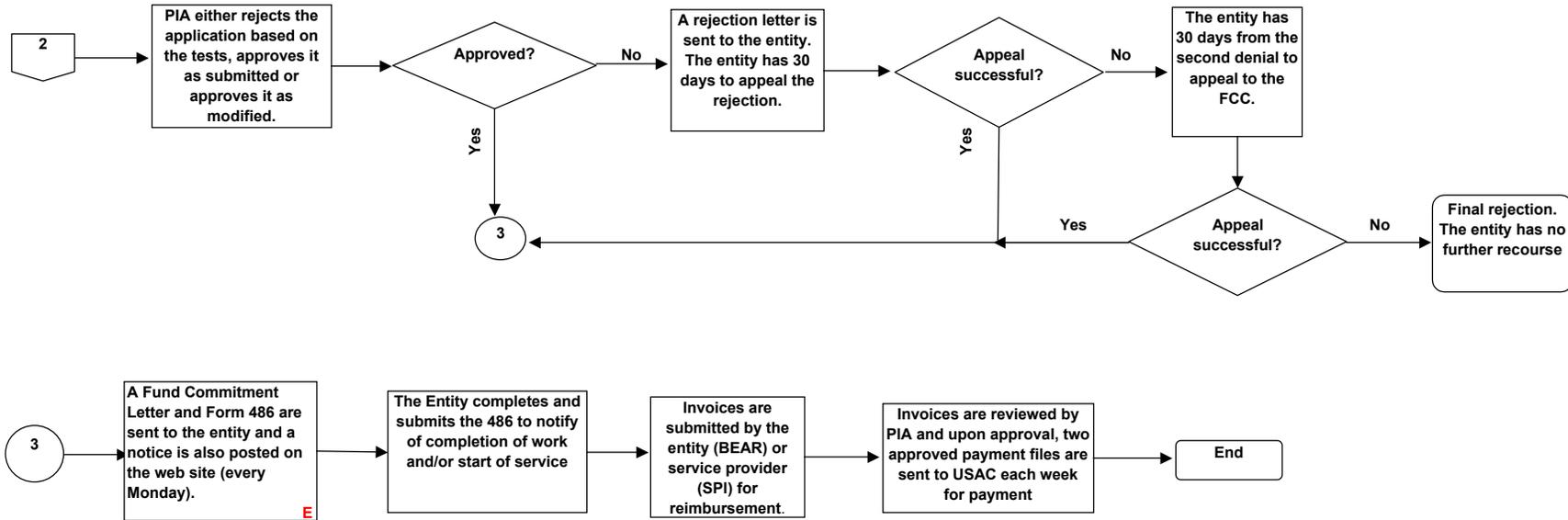
**RHCSM Year 2001 Invoice Line Item Sample Selection**

<b>#</b>	<b>SPIN</b>	<b>Carrier</b>	<b>Invoice Approved Date</b>	<b>Amount</b>
1	143000097	GST Telecom Hawaii	1/9/2002	\$ 12,546
2	143001175	NorLight Communications Inc.	1/9/2002	7,569
3	143001192	AT&T Corp.	1/9/2002	21,339
4	143001199	GCI Communications Corp.	1/28/2002	7,727
5	143001206	Touche America, Inc.	1/28/2002	23,301
6	143001241	Intermedia Communications, Inc.	1/28/2002	23,330
7	143001291	Verizon- New England Inc.	1/28/2002	12,742
8	143001423	Armstrong Telephone Company of WV	2/11/2002	65,960
9	143001727	Ameritech-Michigan(Michigan Bell)	2/11/2002	75,870
10	143001727	Ameritech-Michigan(Michigan Bell)	3/11/2002	76,294
11	143002198	North Dakota Telephone Company	3/11/2002	7,561
12	143002236	James Valley Telecommunications	3/11/2002	7,467
13	143002247	Sully Butes Telephone Cooperative	3/11/2002	4,482
14	143002254	Western Telephone Company	3/11/2002	3,070
15	143002339	Alltel Missouri, Inc.	3/11/2002	1,837
16	143002357	Modern Telecommunications Company	3/11/2002	37,743
17	143002443	TXU Communications	3/11/2002	16,076
18	143002468	Citizens Utilities Rural Telephone	4/10/2002	552,047
19	143002487	Century Tel of Eagle, Inc.	4/10/2002	3,417
20	143002497	Philips County Telephone, Co.	5/13/2002	596
21	143002536	Nemont Telephone Cooperative, Inc.	5/13/2002	89,912
22	143002546	Central Montana Communications Inc.	5/13/2002	3,608
23	143002546	Central Montana Communications Inc.	5/13/2002	1,097
24	143002646	Citizens Telecommunications Co. of CA	5/13/2002	621
25	143002646	Citizens Telecommunications Co. of CA	5/13/2002	3,690
26	143002665	Pacific Bell	6/10/2002	286
27	143002679	Nevada Bell	6/10/2002	7,840
28	143002747	BEK Communications I, Inc.	7/10/2002	2,374
29	143002752	West River Telecommunications	7/10/2002	1,176
30	143004077	Plateau Communications	7/10/2002	2,765
31	143004662	Southwestern Bell	7/10/2002	25,872
32	143004662	Southwestern Bell	7/10/2002	7,679
33	143004662	Southwestern Bell	7/10/2002	3,270
34	143004710	Aliant Midwest, Inc.	7/10/2002	476
35	143004786	Verzon Northwest Inc.	8/12/2002	864
36	143004791	Verizon North Inc.	8/12/2002	48,120
37	143004824	Bellsouth Telecommunications, Inc.	8/12/2002	2,292
38	143004824	Bellsouth Telecommunications, Inc.	8/12/2002	12,983
39	143005231	Qwest Corporation fka US West Communications	8/12/2002	95,911
40	143005695	Sprint Communications	8/12/2002	1,825
41	143005695	Sprint Communications	9/10/2002	42,904
42	143005695	Sprint Communications	9/10/2002	1,266
43	143021783	Pinpoint Communications, Inc.	9/10/2002	1,626
44	143022699	Citizens Communications of North Dakota	9/10/2002	18,425
45	143023855	Northwest Telephone, Inc.	9/10/2002	3,191
<b>Total</b>				<b>\$ 1,341,047</b>

**RHCSM - Appeals Selection**

<u>#</u>	<u>Appeal</u>	<u>HCP #</u>	<u>HCP Name</u>
1	U01-1-1	10421	Eureka Community Health Svcs/Avera Health
2	U01-2-1	11105	Wilson-McKewen Rehabilitation Center
3	U01-3-1	11697	Stillaguamish
4	U01-3-2	11711	Yakama Health Center
5	U01-3-3	11713	Nooksack Tribal Health Center
6	U01-3-4	11715	Neah Bay Health Center
7	U01-3-5	11718	Tulalip Health Clinic
8	U01-3-6	11719	Muckleshoot Tribal Clinic
9	U01-3-7	11722	Sauk-Suiattle Health Clinic
10	U01-4-1	10893	Mobridge Family Practice/Avera Health
11	U01-5-1	11922	Humboldt County Mental Health
12	U01-6-1	12257	Pioneer Medical Center
13	U01-7-1	10449	LLCC Regional Education Center
14	U01-7-2	10463	LLCC Regional Education Center - Litchfield
15	U01-7-3	10464	LLCC Regional Education Center - Taylorville
16	U01-8-1	10967	Southwest Memorial Hospital
17	U01-9-1	12578	Columbia Valley Memorial Health
18	U01-10-1	12558	Union Hospital
19	U01-11-1	10370	Covington County Hospital
20	U02-1-1	13187	Trempealeau County Health Care Center
21	U02-2-1	13167	Class LTD





Note 1> All forms are first received by NCS (National Computer Systems). A signed original of each form is required and once it is received by NCS, it is scanned and archived.

A - The entity has the option to refer to a FCC Form 470 filed during a previous funding year instead of filing a new FCC Form 470.

B - Automated tests include tests for validity of entity, validity of discount calculations, eligibility of service provider, etc.

C - Selection criteria for selective review are as follows: Consortia with Ineligible Entities, Largest Total Funding Requests, Wealthy Private Schools (Endowments) High Per unit Costs.

D - Complex services are defined as applications with funding request numbers (FRN) greater than \$150,000, or an FRN with a one time charge of \$75,000, or an application with 5 or more FRNs for internal connections. If greater than 30% of services are qualified as ineligible, the entire application is rejected.

E - The entity has the option to submit a Form 500 any time after the funds have been committed. Refer to Form 500 process memo.

SLD Year 2002 Application Selection

#	Application Number	Applicant	State	Category	Amount
1	285167	BALTIMORE CITY SCHOOL DISTRICT	MD	DISTRICT	\$ 2,640
2	286071	BUFFALO CITY SCHOOL DISTRICT	NY	DISTRICT	223,703,399
3	287650	PUTNAM COUNTY SCHOOL DISTRICT	TN	DISTRICT	5,400
4	288785	DELTA-SCHOOLCRAFT I S D	MI	DISTRICT	14,872,367
5	288954	SC DIVISION OF THE CIO	SC	SLC CONSORTIUM	10,545,696
6	289173	TODD COUNTY SCHOOL DIST 66-1	SD	DISTRICT	10,042,043
7	292374	JACKSON COUNTY SCHOOL DISTRICT	NC	DISTRICT	25,334,048
8	292468	REGIONAL SCHOOL DISTRICT 04	CT	DISTRICT	1,560
9	294276	EDGEWOOD INDEP SCHOOL DISTRICT	TX	DISTRICT	49,819,520
10	295389	WAIKOLOA ELEMENTARY SCHOOL	HI	SCHOOL	48,548,821
11	296030	OSAGE SCHOOL DISTRICT 43	OK	DISTRICT	44,028
12	298658	CORDOVA CITY SCHOOL DISTRICT	AK	DISTRICT	2,218
13	300130	BURKBURNETT INDEP SCH DISTRICT	TX	DISTRICT	71,826
14	300859	CENTRAL TECHNOLOGY CENTER	OK	DISTRICT	621,727
15	303078	GOOD SHEPHERD SCHOOL	KY	SCHOOL	266
16	303265	MIDDLE BUCKS AREA AVTS	PA	SCHOOL	240
17	303488	CLINTON SCHOOL DISTRICT 15	IL	DISTRICT	67,386
18	305680	GRANADA-HUNTLEY-E CHAIN # 2536	MN	DISTRICT	7,027
19	307133	CENTRAL MINNESOTA EDUCATIONAL RESEARCH AND DEVELOPMENT COUNCIL	MN	SLC CONSORTIUM	46
20	309980	OCEAN SPRINGS SCHOOL DISTRICT	MS	DISTRICT	30,399
21	311177	TOLLAND SCHOOL DISTRICT	CT	DISTRICT	1,122
22	311550	INTERMEDIATE UNIT 15	PA	DISTRICT	50,191
23	312015	ROANE COUNTY SCHOOL DISTRICT	TN	DISTRICT	10,166
24	312567	COVENTRY LOCAL SCHOOL DISTRICT	OH	DISTRICT	2,533
25	313953	FATHER MARQUETTE ELEMENTARY	MI	SCHOOL	969
26	314771	KANSAS CITY SCHOOL DISTRICT	MO	DISTRICT	55,996
27	315982	WILLOW BRANCH TOWNSHIP LIBRARY	IL	LIBRARY	5,593
28	316453	BRONX ELEMENTARY SCHOOLS	NY	DISTRICT	21,600
29	316782	SCOTT COUNTY SCHOOL DIST R 4	MO	DISTRICT	7,771
30	319036	ST JOHNS PUBLIC SCHOOL DIST	MI	DISTRICT	16,074
31	320704	HOUSTON INDEP SCHOOL DISTRICT	TX	DISTRICT	47,173
32	322069	EAST PENNSBORO AREA SCH DIST	PA	DISTRICT	38,503
33	323007	NEW YORK CITY BOARD OF EDUCATION	NY	DISTRICT	2,208
34	323225	WEST PARK ELEM SCHOOL DISTRICT	CA	DISTRICT	864
35	326265	BELMONT SCHOOL DISTRICT	MA	DISTRICT	25,855
36	326301	COLONIAL LIBRARY	NY	LIBRARY	32,127
37	327576	BIG ROCK ELEMENTARY SCHOOL	MI	SCHOOL	13,825
38	327584	EDWARDSVILLE COMM SCH DIST 7	IL	DISTRICT	5,546
39	327722	LOS ANGELES UNIFIED SCHOOL DISTRICT	CA	DISTRICT	13,867,698
40	327926	NEW LEBANON CENTRAL SCH DIST	NY	DISTRICT	9,600
41	328780	CHICAGO PUBLIC SCHOOLS	IL	DISTRICT	68,038
42	328816	CHICAGO PUBLIC SCHOOLS	IL	DISTRICT	226,498
43	328868	DUNCANVILLE PUBLIC LIBRARY	TX	LIBRARY	8,371,989
44	329077	SAN ANTONIO INDEP SCHOOL DIST	TX	DISTRICT	2,756
45	329448	PATTONSBURG SCHOOL DIST R 2	MO	DISTRICT	76,467
46	329553	GIDEON SCHOOL DISTRICT 37	MO	DISTRICT	12,168,749
47	330635	BALTIMORE CITY SCHOOL DISTRICT	MD	DISTRICT	2,081,214
<b>Subtotal - Original 47</b>					<b>420,931,782</b>
48	295389	HOUSTON INDEP SCHOOL DISTRICT	PA	DISTRICT	14,630,700
49	295773	PHILADELPHIA SCHOOL DISTRICT	PA	DISTRICT	12,609,000
<b>Subtotal - Additional 2</b>					<b>27,239,700</b>
<b>Total Selected Applications</b>					<b>\$ 448,171,482</b>

**SLD - Modified FRN Funding Selection**

<b>#</b>	<b>Application Number</b>	<b>FRN Number</b>	<b>Original Funding Amount</b>	<b>Modified Funding Amount</b>
1	324173	866618	<b>\$ 649.20</b> per month	<b>\$ 635.67</b> per month
2	330364	892617	<b>918,023.00</b> per year	<b>880,119.80</b> per year
3	289815	740667	<b>1,852.40</b> per month	<b>1,707.43</b> per month
4	293753	854071	<b>121,449.00</b> per month	<b>121,071.68</b> per month
5	306200	791101	<b>2,000.00</b> per month	<b>1,965.70</b> per month

**SLD - FRN Discount Percentage Selection**

<u>#</u>	<u>Application Number</u>	<u>FRN Number</u>	<u>Discount %</u>
1	329448	888683	71
2	329077	887343	67
3	328780	885975	68
4	327926	881193	50
5	327722	880627	90
6	326265	873779	57
7	311550	866505	60
8	323225	862423	20
9	319036	843910	47
10	316453	834267	75
11	307133	796296	42
12	295389	791022	90
13	303488	781286	90
14	303265	780521	40
15	303078	779828	74
16	296030	758533	60
17	294276	753376	90
18	288954	752797	87
19	287650	735588	75
20	285167	732064	80

**SLD - Service Category Selection**

<b>#</b>	<b>Application #</b>	<b>FRN #</b>	<b>Service Category</b>
1	329077	887343	Telecommunication Services
2	327926	881193	Internet Access
3	323225	862423	Telecommunication Services
4	316453	834267	Telecommunication Services
5	303488	781286	Internal Conn.
6	303265	780521	Internet Access
7	294276	753376	Internal Conn.
8	286071	792771	Internal Conn.
9	289173	745649	Internal Conn.
10	295389	790996	Telecommunication Services
11	305680	789067	Telecommunication Services
12	314771	826111	Telecommunication Services
13	316782	835928	Telecommunication Services
14	320704	851007	Internal Conn.
15	322069	858142	Telecommunication Services
16	326301	873846	Internet Access
17	327576	879477	Internet Access
18	327722	880622	Internal Conn.
19	329553	889317	Internal Conn.
20	330635	893578	Internal Conn.

**SLD - Modified & Denied FRNs Due to Ineligible Services Selections**

**A. Modified FRN Selection**

<u>Application #</u>	<u>FRN</u>	<u>Service Category</u>
295461	757081	TELCOMM SERVICES
305036	822292	INTERNAL CONNECTIONS
312527	817189	TELCOMM SERVICES
330774	894107	TELCOMM SERVICES
299185	840579	INTERNAL CONNECTIONS

**B. Denied FRN Selection**

<u>Application #</u>	<u>FRN</u>	<u>Service Category</u>
292759	748809	INTERNAL CONNECTIONS
300634	770970	TELCOMM SERVICES
301038	772779	TELCOMM SERVICES
302987	780318	INTERNAL CONNECTIONS
305074	787536	TELCOMM SERVICES
307259	797116	INTERNET ACCESS
301259	798773	INTERNAL CONNECTIONS
311937	815595	INTERNAL CONNECTIONS
313295	822397	INTERNAL CONNECTIONS
314656	825119	TELCOMM SERVICES
318218	849461	INTERNAL CONNECTIONS
322005	858223	INTERNAL CONNECTIONS
323017	861676	INTERNAL CONNECTIONS
314129	861784	TELCOMM SERVICES
323829	865095	INTERNAL CONNECTIONS
327986	881567	INTERNAL CONNECTIONS
330022	891079	TELCOMM SERVICES
330274	892303	INTERNAL CONNECTIONS
331403	896665	INTERNAL CONNECTIONS
331487	897836	INTERNAL CONNECTIONS

**SLD - Service Substitution Selection**

<b>#</b>	<b>Application #</b>	<b>FRN</b>	<b>Applicant Name</b>
1	285579	732828	Flenniken Memorial Library
2	292007	746254	Towanda District Library
3	292181	747290	Newberry County SD
4	292326	747349	Newberry County SD
5	295391	757045	Lone Grove ISD 32
6	297202	832725	Valley Center-Pauma USD
7	298236	765460	Our Lady of Mount Carmel
8	300013	796208	Elk City Library
9	301807	774985	Delano Union Elem School
10	309033	808504	Libraries of Middlesex Auto. Consort

**SLD Year 2001 Invoice Sample Selection**

#	Invoice ID#	Invoice Type	SPIN	Amount
36	320707	SERVICE PROVIDER	143005607	\$ 14,815,347
2	264623	SERVICE PROVIDER	143005607	13,170,640
42	328358	SERVICE PROVIDER	143005607	11,719,400
8	280407	SERVICE PROVIDER	143005607	10,461,943
1	261679	SERVICE PROVIDER	143005607	6,750,525
<b>Subt+G51total of 5 Largest invoices</b>				<b>56,917,855</b>
24	308038	APPLICANT	143015283	578,108
33	319730	SERVICE PROVIDER	143022171	136,816
10	282848	SERVICE PROVIDER	143006520	49,890
17	299727	SERVICE PROVIDER	143000042	17,329
4	271468	APPLICANT	143001362	11,003
16	299363	APPLICANT	143021664	9,759
25	308750	APPLICANT	143005231	8,808
27	315393	SERVICE PROVIDER	143004683	8,647
38	321454	APPLICANT	143000074	6,516
9	282732	APPLICANT	143005231	5,585
7	277338	APPLICANT	143001583	5,250
45	340425	APPLICANT	143004824	4,427
34	320140	SERVICE PROVIDER	143001882	3,289
43	331836	APPLICANT	143001192	2,737
23	307717	APPLICANT	143001422	2,500
11	283178	SERVICE PROVIDER	143019623	1,969
19	303809	SERVICE PROVIDER	143007646	1,798
22	307700	APPLICANT	143005231	1,778
28	316994	APPLICANT	143004824	1,633
15	293976	APPLICANT	143004902	1,320
13	284635	APPLICANT	143005202	1,081
18	303563	SERVICE PROVIDER	143004327	922
5	273662	APPLICANT	143001192	822
37	321082	SERVICE PROVIDER	143002212	701
32	319667	APPLICANT	143001358	564
39	322383	APPLICANT	143001192	484
41	326426	APPLICANT	143000095	478
3	270499	SERVICE PROVIDER	143005860	415
35	320149	APPLICANT	143000677	405
40	322933	APPLICANT	143001727	315
20	304566	SERVICE PROVIDER	143006101	310
44	336448	APPLICANT	143005695	288
14	292395	SERVICE PROVIDER	143002693	288
29	317577	APPLICANT	143022127	263
6	276286	SERVICE PROVIDER	143001173	239
31	318641	APPLICANT	143001192	233
30	318444	APPLICANT	143001398	223
12	284623	SERVICE PROVIDER	143001173	192
26	313752	APPLICANT	143000677	169
21	305176	APPLICANT	143004610	43
<b>Subtotal of 40 Randomly Selected invoices</b>				<b>867,594</b>
<b>Total of 45 Originally Selected Invoices</b>				<b>57,785,448</b>
22	312791	APPLICANT	143001123	194
23	327800	SERVICE PROVIDER	143022137	37
48	329304	SERVICE PROVIDER	143010831	130,835
49	330303	APPLICANT	143001432	547
50	332322	SERVICE PROVIDER	143006687	6,425
51	346046	APPLICANT	143004007	1,166
52	347612	APPLICANT	143004824	1,513
53	349713	APPLICANT	143000677	123
54	349760	SERVICE PROVIDER	143004791	-
55	350371	SERVICE PROVIDER	143004508	310
<b>Subtotal - Additional 10 Selections</b>				<b>141,150</b>
<b>Total Selected Invoices</b>				<b>\$ 57,926,599</b>

**SLD - SPIN Change Selection**

<b>#</b>	<b>Application #</b>	<b>Billed Entity #</b>	<b>Name</b>
1	220646	144178	MOUNT DIABLO UNIF SCHOOL DISTRICT
2	254000	142118	EL PASO INDEP SCHOOL DISTRICT
3	256354	88198	EAST LA VEGA INTERMEDIATE SCHOOL
4	237904	99057	QUEEN OF HEAVEN SCHOOL
5	242465	132758	HERMAN SCHOOL DISTRICT 22
6	243699	131139	CARO AREA DISTRICT LIBRARY
7	244815	131173	BULLARD-SANFORD MEM LIBRARY
8	231063	141339	GALVESTON INDEP SCHOOL DISTRICT
9	235801	70174	PILGRIM LUTHERAN SCHOOL
10	263596	127722	MIAMI-DADE COUNTY PUBLIC SCHOOLS
11	236975	207866	COASTAL RESOURCE SHARING NETWORK
12	222613	125265	MT LEBANON SCHOOL DISTRICT
13	262641	123169	BLACK HORSE PIKE REGIONAL SCHOOL DISTRICT
14	256583	136400	STAUNTON SCHOOL DISTRICT 6
15	240316	143602	POMONA PUBLIC LIBRARY

**SLD - Returned Fund Selection**

<b>#</b>	<b>SPIN #</b>	<b>FRN</b>	<b>Amount</b>
1	143001305	644995	\$ 3,907
2	143016347	560144	13,545
3	143005231	635718	2,229
4	143002397	575745	60
5	143022659	510026	2,045
6	143003835	645026	1,455
7	143007531	512332	10,601
8	143018621	613363	306
9	143018621	513953	93
10	143018621	613149	353
11	143003895	709331	218
12	143009275	642595	9,539
13	143005231	645653	563
14	143005183	550898	21,060
15	143005607	658685	50,112
16	143005607	559144	545
17	143002544	501418	181
18	143004238	689393	1,820
19	143003985	537757	2,808
20	143005231	529564	371

**SLD - Appeal Selection**

<b>#</b>	<b>Year</b>	<b>Application #</b>	<b>Applicant Name</b>	<b>Appeal Date</b>
1	2001	229998	UTICA COMMUNITY SCHOOL DIST	8/1/2001
2	2001	257379	FAITH FAMILY ACADEMY OF OAK CLIFF	8/3/2001
3	2001	223303	MARIPOSA CO UNIF SCHOOL DIST	8/6/2001
4	2001	256727	CATHERINE MCAULEY HIGH SCHOOL	8/8/2001
5	2001	263147	ST. BRENDAN SCHOOL	8/9/2001
6	2001	217705	SANTA ROSA CO SCHOOL DISTRICT	8/13/2001
7	2001	217502	GREATER JOHNSTOWN AVTS	8/15/2001
8	2001	234366	SHEPARD-PRUDEN MEM LIBRARY	8/16/2001
9	2001	247130	BURKE COUNTY BOARD OF EDUCATION	8/17/2001
10	2001	265518	SEWANHAKA CENTRAL HIGH SCHOOL DISTRICT	8/17/2001
11	2001	244146	YESHIVA BETH HILLEL	8/17/2001
12	2001	229562	PEDIATRIC LIBRARY	8/17/2001
13	2001	255329	BELEN CONS SCHOOL DISTRICT	8/17/2001
14	2001	263502	SCHOOL BOARD OF BROWARD CO, FL	8/20/2001
15	2001	244579	EDENTON-CHOWAN COUNTY SCH DIST	8/21/2001
16	2001	217521	COLE COUNTY SCHOOL DIST R 5	8/22/2001
17	2001	238995	OXBOW HIGH SCHOOL	8/22/2001
18	2001	244528	KAKE CITY SCHOOL DISTRICT	8/29/2001
19	2001	265117	MOUNT PLEASANT ELEM SCH DIST	9/4/2001
20	2001	247505	DISCOVERY SCHOOL	10/11/2001
21	2001	236781	NORTH CAROLINA OFFICE OF INFORMATION TECHNOLOGY SERVICE	10/11/2001
22	2001	256483	EAST CENTRAL BOCES	10/15/2001
23	2001	247126	BEECHER CITY C U SCH DIST 20	12/17/2001
24	2001	216021	POTEET PUBLIC LIBRARY	1/7/2002
25	2001	229823	OHR MENACHEM - LOZ FELIZ JUDAIC LIBRARY	3/20/2002
26	2001	230195	ACHVA 14TH AVENUE RESOURCE CENTER	3/20/2002
27	2001	263553	OAKLAND UNIFIED SCHOOL DISTRICT	6/17/2002
28	2001	266913	DISTRICT OF COLUMBIA PUBLIC SCHOOLS	7/8/2002
29	2002	307615	MOUNTAIN VIEW MIDDLE SCHOOL	5/3/2002
30	2002	287494	SPRING GROVE AREA SCH DISTRICT	5/6/2002
31	2002	315006	YALE PUBLIC SCHOOLS	5/17/2002
32	2002	319818	MONTGOMERY COUNTY SCHOOL DIST	5/22/2002
33	2002	327273	ST. PAUL LUTHERAN SCHOOL	5/27/2002
34	2002	307820	CHABAD JEWISH RESOURCE CENTER OF GRAMERCY PARK	6/13/2002
35	2002	320062	WAYNE COUNTY PUBLIC SCHOOLS	6/17/2002
36	2002	315248	YANTIS INDEP SCHOOL DISTRICT	6/21/2002
37	2002	327651	ANDOVER FREE LIBRARY	6/24/2002
38	2002	327390	MOHAWK CENTRAL SCHOOL DISTRICT	7/8/2002
39	2002	328302	ASSUMPTION HIGH SCHOOL	7/8/2002
40	2002	323104	WORD OF OUTREACH CHRISTIAN ACADEMY	7/17/2002
41	2002	289169	SUNNYSIDE UNIF SCHOOL DIST 12	7/18/2002
42	2002	320195	MICHIGAN CITY PUBLIC LIBRARY	7/22/2002
43	2002	329943	ARIZONA DEPARTMENT OF JUV CORR	8/16/2002
44	2002	330337	JULESBURG PUBLIC LIBRARY	8/19/2002
45	2002	316813	SANS SOUCI ELEMENTARY SCHOOL	11/4/2002

**Disbursements - Credit Balance Refund Selection**

<b>Filer ID</b>	<b>Filer Name</b>	<b>12/31/01 AR Balance</b>
818400	SOUTH BEND/MISHAWAKA MSA LTD PARTNERSHIP	\$ (32,037)
801231	CITIZENS TELEPHONE COOPERATIVE	\$ (30,771)
818260	MEDIAONE TELECOMMUNICATIONS OF VIRGINIA	\$ (42,037)
804046	CITIZENS TELECOMMUNICATIONS CO OF WST VI	\$ (41,415)
803391	SNET CELLULAR INC	\$ (80,817)
808347	GLOBAL CROSSING NORTH AMERICAN NETWORKS	\$ (65,597)
820776	RHYTHMS LINKS, INC.	\$ (471,481)
807072	MCI COMMUNICATIONS CORPORATION	\$ (449,814)
808428	TOUCH AMERICA, INC.	\$ (734,490)
821022	EAGLE COMMUNICATIONS	\$ (10,362,625)

**Disbursements - Form 498 Selections**

**Schools and Libraries**

<u>#</u>	<u>USAC SPIN</u>
1	143005607
2	143005860
3	143001362
4	143006520
5	143000042
6	143004327
7	143001422
8	143000677
9	143001398
10	143002212
11	143000074
12	143000095
13	143005607
14	143004824

**Rural HealthCare**

<u>#</u>	<u>USAC SPIN</u>
1	143001291
2	143002752
3	143004662
4	143005231
5	143005695
6	143001199
7	143002665
8	143002254
9	143002546
10	143002679
11	143001727
12	143002536
13	143004824

**High Cost**

<u>#</u>	<u>USAC SPIN</u>
1	143002364
2	143001498
3	143001715
4	143001884
5	143002007
6	143001441
7	143002677
8	143002480
9	143018621
10	143001462
11	143002453
12	143004786
13	143009019

14	143002341
<b>Low Income</b>	
<b>#</b>	<b>USAC SPIN</b>
<hr/>	<hr/>
1	143012945
2	143002735
3	143015291
4	143006439

**Disbursement - Administrative Expenses**

#	Description	Invoice amount
1	Arthur Andersen Audit Fee - 30 June 2001	\$ 101,800.00
2	Arthur Andersen - AUP & Beneficiary	\$ 500,000.00
3	Arthur Andersen Audit Fee 1st and 2nd Interim	\$ 150,000.00
4	PricewaterhouseCoopers - Fees March 02	\$ 279,098.84
5	PricewaterhouseCoopers - Fees May 02	\$ 279,098.66
6	Arthur Andersen - Audit fee	\$ 105,800.00
7	PricewaterhouseCoopers - Fees August 02	\$ 279,068.64
8	Mintz Levin,Cohn, Ferris, Glovsky and Popeo PC	\$ 116,753.50
9	No invoice from IBM - email from Mark Carmichael	\$ 250,000.00
10	NTCA - Group Health Program	\$ 151,923.91
11	Pricewaterhouse Coopers	\$ 351,314.64
12	Pricewaterhouse Coopers	\$ 300,098.64
13	Rhoads & Sinon Group LLC	\$ 53,100.00
14	Pricewaterhouse Coopers	\$ 279,068.64
15	Rhoads & Sinon Group LLC	\$ 63,159.61
16	NTCA - Group Health Program	\$ 162,275.18
17	Deloitte and Touche	\$ 109,360.00
18	Mintz Levin,Cohn, Ferris, Glovsky and Popeo PC	\$ 55,229.77
19	Mintz Levin,Cohn, Ferris, Glovsky and Popeo PC	\$ 68,996.51
20	Gelman Building LP-Total Lease expenses	\$ 27,512.54
21	Mintz Levin,Cohn, Ferris, Glovsky and Popeo PC	\$ 64,832.01
22	Mintz Levin,Cohn, Ferris, Glovsky and Popeo PC	\$ 68,996.51
23	Pricewaterhousecoopers	\$ 552,321.46
24	Gelman Building LP-new monthly	\$ 28,062.79
25	Murphy Sheneman et al	\$ 11,638.00

## USAC AGREED-UPON PROCEDURES PLAN

### *General*

Section 54.7 of the FCC Rules and Regulations requires use of federal universal service support only for its intended purpose. The overall objective of this engagement is to perform the Agreed Upon Procedures determined by management and approved by the FCC.

### *Compliance Procedures*

#### *Procedures*

1. Inspect the certificate of incorporation, bylaws, and articles of incorporation and note affiliations with telecommunications service providers.
2. Inquire whether USAC's Board of Directors is separate from the Board of Directors of NECA. Obtain the list of the Board of Directors of USAC at year-end, compare its composition with that as described in Section 54.703(b) of the FCC Rules, and note any differences.
3. Inquire and inspect the general ledger ("G/L") and the written accounting procedures and policies of USAC to determine that USAC maintains its books of record separate from those of NECA.
4. Compare annual salaries paid to officers and employees of USAC with annual salaries for Level I of the Executive Schedule under section 5312 of title 5 of the United States Code. In the comparison, the annual salaries paid should include the basic rate of pay, bonuses, any non-regular payments, or other compensation. Note any amounts paid in excess of authorized limits.
5. Compare actual administrative and capital expenditures incurred during 2002 to budgeted amounts. Note any variations in excess of 10%. In addition perform the following:
  - a. Obtain a schedule of administrative expenses broken down by account incurred for each of the Universal Service mechanisms in 2002 and compare with the expenses incurred for the same mechanisms in 2001. Note any differences and inquire and make notation of, and explain, all accounts with a balance of \$100,000 or more where the increase is in excess of 20%.
  - b. Compare administrative expenses for each mechanism in 2002 with budgeted administrative expenses for each mechanism in 2002. Note any differences.

## USAC AGREED-UPON PROCEDURES PLAN

6. Obtain and review a copy of written policies and procedures. Comment as to whether the written policies set forth the general framework for compliance with Universal Service rules and regulations.
7. Obtain USAC Cost Allocation Manual (CAM) and inquire of management as to whether any changes were needed to reflect the latest changes in the FCC Rules. Verify that the CAM has been updated for any needed changes.
8. Inspect debt and investment instruments on a test basis and note any direct investments in telecommunications service providers.
9. Inquire and inspect USAC's accounting records noting whether USAC maintains separate G/L accounts for the amounts billed to contributors and amounts paid and due to service providers for eligible schools and libraries, rural health care providers, low-income consumers, and high cost and insular areas as required by Section 54.702(i).
10. Review prior year's financial statement audit and AUP reports and work papers. Prepare a summary of all findings and/or observation made. Inquire of management as to the corrective measures taken. In addition, in the performance of the procedures that follow be mindful of these findings and observations to determine that the corrective measures taken were appropriate.

### *Contributors to USF*

#### Background

Five times a year, all interstate and intrastate telecommunication service providers contributing to the Universal Service Fund must submit an FCC Form 499 detailing revenue data. The revenue information on the Form 499 is also used by their respective administrators to determine the contributions to the Telecommunications Relay Services (TRS), North American Numbering Plan (NANPA), and Local Number Portability (LNP). The data is due on February 1, April 1, May 1, August 1, and November 1 and is filed with USAC. The February, May, August, and November quarterly data collection reports revenue data for the prior quarter. The April data collection reports the prior year's annual revenue data that is used to true up the quarterly data reported during the prior year. All carriers, other than those qualifying for the *de minimis* exemption, are required to complete the quarterly forms. USAC estimates revenue data for carriers that do not complete a quarterly or an annual form. The FCC has exempted from its quarterly revenue reporting requirements those carriers whose annual contribution to fund universal service mechanisms is likely to be less than \$10,000. USAC requires these carriers to complete a Certification of *De Minimis* Exemption.

## USAC AGREED-UPON PROCEDURES PLAN

USAC files quarterly reports to the FCC detailing the upcoming quarter's support mechanism demand, administrative expenses, interest income, and revenue estimates. The information is used by the FCC to calculate the contribution factors for the USF that are multiplied by certain revenue items to get each service providers contribution amount. Each month, USAC mails to the service providers the statements containing the amount that is owed by support mechanism. All payments are sent to USAC and the cash received is applied accordingly.

The contribution process is the same for each of the four mechanisms as it relates to the data collection, the issuing of invoices and the collection of the revenue. The contribution amounts are calculated and invoiced together on one invoice. After the revenue is collected, it is tracked according to the component of total demand of each mechanism.

The billing system used to calculate monthly contributor bills was changed in July to address three new FCC regulations ([Dkt No. 96-45](#), [98-171](#), [90-571](#), [92-237](#), [99-200](#), [FCC No. 02-43](#)). The new regulations encompass circularity (change in contributor revenue base), ID consolidation (consolidating revenue for multiple carriers into one ID), and LIRE exception (carriers whose interstate revenues make up less than 12% of their total revenues are eligible to take advantage of the Limited International Revenue Exemption).

The new invoicing system will import invoicing data from various accounting systems for processing. The billing system will perform necessary calculations to generate invoice transactions and final balance due accounting for specific business rules.

### Objectives

To determine whether:

1. USAC has made a reasonable effort to identify all carriers liable for contributing to the USF and followed up on non-responders.
2. The revenue information from Forms 499, which is reported to the FCC for their calculation of the contribution factors, is accurate and only authorized data is accepted for processing.
3. The historical data and expected results are reasonable.
4. Invoices that service providers receive monthly are accurate and mailed in a timely manner.

## USAC AGREED-UPON PROCEDURES PLAN

5. Adjustments to contributor liability amounts or account balances are authorized in accordance with management criteria and the FCC rules and regulations.
6. Collection procedures for non-payments are reasonable.
7. The billing system implemented in July 2002 is generating monthly invoices accurately and timely.
8. The transactions at the time of transition were adequately populated the billing system.
9. The revenue collected is properly accounted for within the individual mechanisms.
10. The administrative expenses for the data collection function are properly identified and allocated based on an allocation method approved by the FCC

### Procedures

1. Discuss with USAC management and document procedures used to identify telecommunications carriers subject to participation in the USF. Examine the list of USF contributors and compare it with the FCC published list of carriers contributing to the Telecommunications Relay Services Fund, the North American Numbering Plan Administration, and the Local Number Portability Administration and select a sample of **20** contributors to see if they are on the FCC list.
2. Discuss with USAC management the procedures in place for following up with non-responders to the FCC Form 499 data request. Obtain the documentation for selected non-responders and review and comment on the procedures performed by USAC to obtain the requested information.
3. Obtain the list of carriers that are considered *de minimis*. Select carriers from the list and obtain the corresponding Certification of *De Minimis* Exemption for each company (if available) and review the form for completeness. Compare annual revenue reported on Form 499-A and verify *de minimis* status of carrier for the previous year.
4. Discuss with USAC management the procedures in place to ensure that the FCC Forms 499 are reviewed for errors, omissions, mathematical accuracy and reasonableness.
5. Select a sample (document the sample selection process) of Form 499's that have been received by USAC, from the 499Q November 1, 2001 filing, 499Q

## USAC AGREED-UPON PROCEDURES PLAN

February 1, 2002 filing, 499Q May 1, 2002 filing, August 1, 2002 filing, and the 499-A April 1, 2002 filing, and perform the following:

- a. Review the form for clerical accuracy and completeness.
  - b. Trace the name of the carrier, address, and I.D. #, to the USAC carrier database.
  - c. Verify that the service provider has certified the form.
  - d. Determine if the forms have been reviewed for reasonableness by USAC personnel.
1. Discuss with USAC management the procedures in place to ensure that revenue information obtained from FCC Form 499 is accurately summarized and reported to the FCC for their calculation of the contribution factors.
  2. Test the information used to calculate the contribution factors reported on the quarterly USAC filings to the FCC by performing the following:
    - a. Trace the total end user revenue base amounts to the supporting schedules.
    - b. Randomly select carriers and trace the revenue information to the carrier Form 499 that was submitted to USAC.
    - c. Using the sample selection made in b. above, verify the information on the supporting schedule.
  8. Discuss with USAC management the procedures in place to ensure that contributors' historical data is current. Review the historical data for a sample of contributors, compare with current data, and obtain explanations for significant variations.
  9. Discuss with USAC management and/or personnel, the monthly procedures involved in preparing and reviewing invoices. Review them for compliance with documented desk procedures. Note any differences.

To test the accuracy of the invoices that USAC sends to contributors, select a sample of statements issued to contributors throughout the year and perform the following:

- a. Test the invoices for mathematical accuracy.
- b. Trace the carrier name, ID#, and revenue amount to the applicable Form 499 submitted to USAC.

## USAC AGREED-UPON PROCEDURES PLAN

- c. Review for timeliness of billing based on the invoice date.
  - d. Recalculate the invoiced amounts for each mechanism based on FCC approved formulas and information from the Form 499.
  - e. Trace the above selected invoices to carrier receipts (lockbox documentation, checks, wire transfers, etc.) and investigate any differences.
  - f. Trace the daily lockbox report total for the days the above amounts were received, or the wire transfer amounts to the bank statement.
10. Obtain USAC management's criteria and procedures for the process of adjusting Contributor liability amounts (amounts billed and amounts due from contributors) or account balances and perform the following:
- a. Discuss the procedures used by USAC personnel and compare them for compliance with management criteria and FCC Rules. Document any differences.
  - b. For those providers whose revenues used to bill differs from the amount shown on the Form 499Q, filed May 1, August 1, and November 1, obtain a copy of the amended Form 499Q and match revenue amounts used in the billing with revenue amounts shown in the amended filing. Note any differences.
11. Discuss with USAC management and document the procedures performed when a contributor does not remit the required payment. Include the collection actions taken, result and reason for non-payment, the realizability of these non-responder receivables, and any FCC Notice of Apparent Liability (NAL)'s given to carriers.
12. Obtain a monthly list of non-collectible receivables that USAC sends to the FCC for all 12 months and select a sample of accounts for review. Document and verify the actions taken by USAC to receive payment from a sample of contributors for each selected account by reviewing any supporting documentation available. In addition, trace the amounts listed on the above list to the A/R analysis.
13. To determine whether or not cash receipts are recorded on a timely basis, are allocated to the proper carrier, and are allocated to the appropriate support mechanism, perform the following procedures:

## USAC AGREED-UPON PROCEDURES PLAN

- a. For the invoices selected for testing in step 9, ensure that the subsequent cash receipts are applied to the appropriate carrier on a timely basis.
  - b. Verify that the payment received is allocated properly amongst the support mechanisms.
14. For the invoices selected for testing in step 9, document the time lag between the date that USAC sends the invoices to the contributors and the date the payments are received. If the payments are received late, inquire and document whether USAC charges a late fee or interest, and if so at what rate.
15. Inquire with management as to whether there have been any instances when contributors have failed to submit FCC Form 499 by the due date. Document what procedures the administrator took to bill the contributor and verify, on a test basis, whether the bill was submitted on a timely basis.
16. Review the G/L and hold discussions with management to determine if there were any funding excesses and/or shortages. Examine any instances on a test basis.
17. Obtain a schedule showing all data collection expenses, by month, indicating direct expenses and allocated expenses (according to USAC CAM) and document that expenses are allocated, as required, among the various administrators.

### *Physical Security/Information Systems Application Safeguards*

#### Procedures

1. Discuss with management the organizational structure, policies and procedures to ensure that they are defined and communicated so that personnel perform their duties correctly and that the procedures and controls are followed.
2. Discuss with management the organizational structure to ensure that it provides for the segregation of incompatible duties.
3. Discuss with management the controls in place to ensure that new applications and changes to existing USAC applications are appropriately authorized, tested, and documented.
4. Discuss with management the controls in place to ensure that access to production Programs, data files, and online reports is limited to authorized personnel to prevent against unauthorized use, loss, or modification.

## USAC AGREED-UPON PROCEDURES PLAN

Ascertain that violations are recorded by the system, reviewed by Data Security and that the appropriate action is taken.

5. Discuss with management the controls in place to ensure that implementation of, and modifications to, operating and security system software is appropriately authorized, tested, and implemented.
6. Discuss with management the controls in place to ensure that access to operating and security system software and related documentation is restricted.
7. Discuss with management the controls in place to ensure that all access to the computer room and equipment is properly authorized.
8. Discuss with management the controls in place to ensure that the data center is operated in accordance with management's criteria.
9. Discuss with management the controls in place to ensure that on-line access to computer resources is restricted to authorized users and that users' capabilities are restricted to the functions for which they are authorized.
10. Discuss with management the controls in place to ensure that adequate plans exist for the backup of critical resources. Also, review and test controls to ensure that a disaster recovery plan has been established and is tested at least annually.
11. Discuss with management the controls in place to ensure that all basic data on the USAC master database remains authorized, complete, and accurate; any changes to the USAC master database file are made with proper authorization and documentation; and changes are accurately reflected in the USAC master database.
12. Discuss with management the controls in place to ensure that non-disclosure agreements are signed by each employee having access to USAC information to safeguard the confidential information used in performing its duties.
13. Discuss with management the controls in place to ensure that system status changes are initiated by authorized users in accordance with schedules and that system statuses are mutually exclusive.
14. Document and evaluate the security administration function and general information technology ("I/T") controls operating over the information systems that support each mechanism, as appropriate.

## USAC AGREED-UPON PROCEDURES PLAN

15. Document all discussions in the form of memos and flowcharts as appropriate.
16. Based upon discussions held and controls identified through the procedures above, test controls as necessary to ensure that the appropriate control structure is in place and is operating effectively.

### *High Cost Support Mechanism*

#### Background

As of January 1, 1998, the High Cost Support Mechanism was created from the former High Cost Universal Service Fund (USF), Dial Equipment Minutes (DEM) weighting and Long Term Support (LTS) programs, in an effort to provide better support for high cost, insular, and rural areas and to transform implicit support into explicit and portable high cost universal service support. At the time, revised high cost support included only High Cost Loop (HCL), Local Switching Support (LSS), and Long Term Support. (See FCC Rules sections 36.601 through 36.631; 54.301; and 54.303.) Each of these components is portable, meaning that it is available to incumbent carriers, subject to certain eligibility criteria, and the competitive eligible telecommunications carriers serving lines in those incumbent carriers' service areas. See the First Universal Service Order. USAC was appointed Administrator of all universal service support mechanisms, including the revised high cost support mechanisms.

What was formerly known, as USF became HCL, with NECA retaining responsibility for data collection and calculation of the HCL expense adjustment under Part 36 of the FCC's rules. DEM weighting mechanism became Local Switching Support (LSS) and is available to all Incumbent Local Exchange Carriers (ILECS) with less than 50,000 lines and their competitors. The payments to pool participants are downloaded into the disbursement system and appear on the monthly output reports. LSS is designed to give support for smaller local exchange carriers (those with less than 50,000 access lines) that cannot take advantage of certain economies of scale involved with switching costs available to larger carriers. . LTS is only available for carriers that are part of the NECA common line pool. It is downloaded into the disbursement system and appears on the disbursement output reports. NECA is the vendor under contract to USAC to provide support in administering HCL, LSS, and LTS.

In 2000, two new components were added to the High Cost Support Mechanism: Forward-Looking High Cost Model Support for non-rural carriers (HCM) and Interstate Access Support (IAS). HCM uses cost outputs from a network model mechanism to provide support to non-rural carriers. Rhoads & Sinon is the vendor under contract to USAC to provide support in administering HCM. The HCM payments to NECA members are downloaded into the

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settlement system and appear on the monthly output reports. IAS uses outputs from series of mathematical formulas that measure the difference between Common Line, Marketing, and Transitional Interconnect Charge (CMT) revenue under price caps and benchmarks based on the new subscriber line charge caps. (See FCC Rules Sections 36.601 through 36.631; 54.301 through 54.313; 54.800 through 54.809; 54.901 through 54.904). In 2001, the FCC authorized Safety Net additive support for carriers who made a “significant investment” in their telecommunications plant in service (TPIS) per line investment. Also added was Safety Valve support, which is available to rural carriers for acquired exchanges. See *RTF Order*, FCC 01-157.

In 2002, one new component was added to the High Cost Support Mechanism – Interstate Common Line Support (ICLS), effective July 1, 2002. ICLS supports interstate common line costs by replacing the carrier common line (CCL) charge with explicit support that will be available to all ETCs. It provides support for rate-of-return carriers to the extent that subscriber line charge (SLC) caps do not permit them to recover their common line revenue requirements. For the initial implementation year (July 1, 2002 – June 30, 2003), ICLS is calculated based on revenue data and line count data provided by each rate-of-return carrier and each competitive ETC serving in a rate-of-return carrier’s service area. (See *MAG Order* – FCC 01-304; *ICLS Implementation Order* – FCC 02-89; and FCC Rules Sections 54.901 through 54.904).

### Company Procedures

For HCL, there is an annual data collection process whereby local exchange carriers submit required information to NECA. The collection data is due from the carriers in July to be filed by NECA each October with the FCC and USAC. Based on the data collection results, NECA calculates the national average cost per loop (NACPL), which determines the amount of funds to be disbursed to each carrier. Effective July 1, 2001, the NACPL for rural carriers is frozen at \$240.00, as mandated by the *RTF Order* (FCC 01-157). A LEC is eligible for support if its loop costs exceed 115% of the national average loop cost. There is a FCC mandated cap amount limiting the amount of total disbursements for the year. As a result, the NACPL has to be adjusted if payment amounts are over the cap amount. The individual amounts are calculated, totals are approved and the information is downloaded to USAC to be disbursed.

Historically, rate-of-return carriers recovered their common line revenue requirements through SLCs, CCL charges, and LTS. The purpose of LTS was to prevent the CCL rates of high-cost carriers that were members of the NECA common line pool from rising significantly above the national average CCL rate. In 1997, the FCC concluded that LTS should be continued, but with modifications

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to make the support explicit, portable, and competitively neutral. Rate-of-return carriers currently receive LTS amounts based on the support received in the previous year, increased by inflation (i.e., the annual percentage change in the GDP-CPI).

In calculating LSS, USAC accepts data from NECA on behalf of companies participating in NECA's traffic sensitive pool. For cost companies, NECA provides information from its collection of data for the annual NECA tariff filing. For average schedule companies, settlement information is used to calculate the amounts according to a formula developed by NECA and approved by the FCC. The non-pool participants are sent data collection requests once a year for the previous year's updated information. The information on the data request is used to calculate each LEC's payment based on FCC approved formulas.

High cost support for non-rural carriers, or HCM support, is based on a forward-looking economic cost model. The model generates the statewide average cost per line, which is then compared to the national average cost to determine eligibility for forward-looking support. If the statewide average cost per line exceeds 135 percent of the national average cost per line (the national cost benchmark), the state qualifies for support. Support is provided for all intrastate costs per line that exceed the national benchmark. Forward-looking intrastate costs per line equal 76 percent of the forward-looking costs generated by the model. The remaining 24 percent is recovered through the interstate jurisdiction.

The FCC runs the model once a year and presents the results to USAC. USAC uses the model results to distribute support to the non-rural carriers in the states that are eligible for HCM support. USAC also targets the HCM support at the wire center level. The total support in a state is targeted so that support is only available to non-rural carriers serving those wire centers with forward-looking costs that exceed the benchmark. Interim hold harmless support for non-rural carriers is targeted in a similar, but not identical, fashion. USAC also receives quarterly updated line counts that are filed with NECA pursuant to Part 36 of the FCC's rules, and those updated line counts are supposed to be used to calculate HCM.

Interstate Access Support (IAS) is available to price cap carriers and the CETCs that serve lines in those carriers' study areas. Price cap carriers must submit CMT revenue information on an annual basis and line count information (with residential and single-line business lines reported separately from multi-line business lines) on a quarterly basis. Price cap carriers must also submit unbundled network element (UNE) zone rates and maps, if UNE zones have been established. IAS is targeted at the UNE zone level. The FCC's rules contain a series of formulas that are used to calculate IAS for price cap carriers. See Sections 54.804 – 54.807.

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To qualify for ICLS, rate-of-return carriers are required to submit projected common line revenue requirement data on March 31 of each year and actual common line revenue requirement data on July 31, 2003 and each year thereafter. Rate-of-return carriers are also required to submit line count information on March 31 of each year, as well as updated line counts on a quarterly basis if a competitor has been designated as an ETC and is reporting lines in the incumbent's study area. Competitive ETCs are required to submit line count information on a quarterly basis. Residential and single-line business lines must be reported separately from multi-line business lines. Pursuant to FCC rules, ICLS is calculated by subtracting from each eligible rate-of-return carrier's common line revenue requirement the following data points: (1) SLC revenue; (2) CCL charge revenue; (3) special access surcharges; (4) line port costs in excess of basic analog service; and (5) LTS revenue.

The HCL, LTS, LSS, HCM, IAS, and ICLS are downloaded to Treasury and processed through the USAC accounts payable system.

For competitive ETCs (CETCs) to receive HCL, LTS, LSS, HCM, and ICLS, they must report quarterly updated line counts according to the following schedule: (1) by July 31, submit line counts as of December 31 of the previous year; (2) by September 30, submit line counts as of March 31 of the current year; (3) by December 31, submit line counts as of June 30 of the current year; and (4) by March 31, submit line counts as of September 30 of the previous year. For CETCs to receive IAS, they must submit quarterly updated line counts according to the following schedule: (1) on the last business day of March, submit line counts for the period ending December 31 of the previous year; (2) on the last business day of June, submit line counts for the period ending March 31 of the current year; (3) on the last business day of September, submit line counts for the period ending June 30 of the current year; and (4) on the last business day of December, submit line counts for the period ending September 30 of the current year. CETCs receive the same per-line support available to the incumbent carriers in whose study areas the CETCs serve.

### Objectives

To determine whether:

1. The high cost mechanism data that is submitted to USAC's treasury for payment is accurate, reasonable, and has been reviewed by applicable USAC personnel.
2. Only Eligible Telecommunications Carriers receive payment from the high cost mechanism.

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3. The data in the November quarterly USAC filing to the FCC incorporates the results of the third party (NECA) annual data collection for HCL and is updated appropriately.
4. Only ETCs for which an annual certification is on file with USAC and the Commission will receive support.

### Procedures

1. Review and test controls to ensure that input data items are complete and reasonable and that only authorized input is accepted for processing.
2. Review and test controls to ensure that only one data submission is processed for each cost company and that no changes are made to an ETC high cost data submission without proper documentation and authorization.
3. Review and test controls to ensure that the ETC's high cost data is reasonable in relation to that ETC's historical data and expected results.
4. Review and test controls in place that ensure a post processing review of high cost data is performed in accordance with management's criteria to further ensure the reasonableness of high cost results.
5. Review and test controls in place that ensure that High Cost Support is computed in accordance with FCC Rules, including Sections 36.601 through 36.631, 54.301 through 54.313, 54.800 et seq., and 54.900 et seq., as applicable, and management's criteria.
6. Review and test controls in place that ensure only ETC, as defined by FCC Rules Section 54.201 and determined by the various state Public Utility Commissions or the FCC, receive payments from the High Cost Support Mechanism. Additionally, ensure that only incumbent local exchange carriers and CETCs which have on file a certification with the FCC and USAC receive payments from the High Cost support mechanism. These is certification should state that all high-cost support provided to such carriers within that state will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended (see Section 54.313 and 54.314). Select a sample of carriers from the payment files for selected months and inspect their ETC designation and/or their annual certification on file with USAC.
7. Review and test controls in place that ensure monthly High Cost disbursements are accurately calculated and summarized, before information is electronically passed to USAC Billing and Disbursement Agency which is then forwarded to USAC's treasury for payment by performing the following steps:

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- A. Review the LTS-payment amounts for 10 selected carriers and perform the following:
1. Obtain the Universal Service Mechanisms – High Cost Disbursement Notification. Review for proper concurrence and approval of the amounts authorized for payment.
  2. Trace the Long Term Support amount to the LTS Actual monthly report located in the monthly payment binder. Mathematically verify the schedule for one month.
  3. Review all pages of the LTS Actual Report and ensure that whenever there is an “N” in the “ETC” column, there are zeros across the corresponding row. In addition, trace the carrier to the Eligible Carrier Status Report noting that the carrier is not eligible to receive payment.
  4. For selected carriers, recompute the LTS amount consistent with FCC rules.
- B. Review the LSS payment amounts for 10 selected carriers and perform the following:
1. Trace the Local Switching Support to the LSS Actual monthly report located in the monthly payment binder. Mathematically verify the schedule for one month.
  2. Review all pages of the LSS Actual Report and ensure that whenever there is an “N” in the “ETC” column, there are zeros across the corresponding row. In addition, trace the carrier to the Eligible Carrier Status Report noting that the carrier is not eligible to receive payment.
  3. For selected carriers, recompute the LSS amount consistent with FCC rules. Ensure the selection includes both NECA pool and non-pool participants.
- C. Review the LSS Adjustments as follows:
1. Review the High Cost Mechanism 2000 true-up reports for the 10 carriers selected in AUP Step 7B to determine if a true-up adjustment had occurred for those carriers.
  2. Mathematically verify the schedule.

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3. For any true-up adjusted amounts, trace the monthly projection amount to the 2000 Y-T-D report and the forecasted amount to the documentation of the new calculation. Recalculate the amounts and agree applicable amounts and tie amounts to revised data submissions.
- D. Review the High Cost Loop payments for 10 selected carriers and perform the following:
1. Trace the High Cost Loop amount to the USF Actual monthly report located in the monthly payment binder. Clerically test the schedule for one month.
  2. Verify that all applicants receiving Safety Valve support have established an index year and that the support does not exceed 50% of the difference between the index year high cost loop support amount and the high cost loop support amount in subsequent years.
  3. Verify that all carriers receiving Safety Net Additive Support have filed a certification that the study area meets the 14% TPIS trigger at the time of their annual or quarterly data submission.
- E. Review the Interstate Access Support payments for 10 selected carriers and perform the following:
1. Trace the Interstate Access Support amount to the USF Actual monthly report located in the monthly payment binder. Mathematically verify the schedule for one month.
  2. Verify that all selected carriers have filed a certification in accordance with FCC Rules and Regulations Section 54.809.
- F. Review selected (**Scope** – minimum of 5) Forward Looking Cost Model calculations and perform the following:
1. Review calculations to assure that the data used in the model is from the appropriate period.
  2. Review payments to Non-Rural carriers to assure that disbursements were calculated using both the Forward Looking Cost Model and the Hold Harmless methodology. Amount calculated by the Hold Harmless method excluding LTS amounts should be reduced by \$2.00 annually in the average monthly per-

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line support. Verify that the disbursement to the carriers was at the higher of these two amounts.

- G. Review the Interstate Common Line Support payments for 10 selected carriers (beginning July 1, 2002):
1. Trace the Interstate Common Line Support amount to the monthly report contained in the monthly payment binder. Mathematically verify the schedule for one month.
  2. Verify that all selected carriers have filed a use certification in accordance with FCC Rules and Regulations Section 54.904.
8. Review and test controls to ensure that disbursement notifications are reviewed for accuracy and completeness prior to being sent to the ETCs.
9. Inquire whether the High Cost and Low Income Committee has authorized any audits of recipients of universal service support (see Section 54.705(c)(1)(iv)). If any audits have been conducted, obtain a copy of the report and note the period of the audit and the date the report was completed.
10. Review the CETCs receiving support and verify that they have reported data accurately and on a timely basis. Determine if support payments reflect the per line amount the corresponding ILEC receives in the service area.
11. Obtain a summary of the amounts disbursed by USAC in 2002 and compare to the amount included in the projection filed with the FCC. Obtain a summary of the amounts disbursed and/or processed through the NECA pool settlement system in 2002 and compare to the amount authorized by USAC. Identify any amount's disbursed that are in excess of the amount projected.
12. For the USAC filing relating to the first quarter of 2002, made in November 2001, trace the mechanism size projection totals for all High cost and Low Income line items to a supporting schedule and perform the following:
- a. Mathematically verify the schedule and review for unusual items.
  - b. For High Cost Loop amounts, trace the amount to the NECA October filing with USAC and the FCC. Also, perform this test for individual ETC's on a test basis. Reconcile and document any differences (due to true-ups, limitations, etc.).

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### *Low Income Support Mechanism*

#### Background

Effective January 1, 1998, the low-income mechanism was created from the former Lifeline Assistance and Lifeline Connection Assistance Mechanisms in order to achieve the goal of delivery of affordable telecommunication services to all Americans including low-income consumers. The revised mechanisms provides assistance to consumers in all states even if their local exchange carrier had not previously offered this support. All ETCs, as defined by the FCC and certified by each state's Public Utility Commission or the FCC, are eligible to receive reimbursement from USAC for the discounts that they give to low-income consumers.

There are three components in the low-income mechanism, Lifeline, Link-Up, and Toll Limitation Services (TLS). Lifeline reduces qualifying consumers' recurring monthly local service charges. Link Up provides federal support to reduce eligible consumers' initial connection charges by up to one half, and provides support for carriers with deferred payment plans. The monthly minimum federal Lifeline discount available consists of the tariffed rate for the end user common line charge for the primary residential line. This rate will increase every July 1 until 2003 (See Section 69.104 and 69.152). Additional federal lifeline discounts up to a maximum of \$3.50 per month per primary residential line are available if the carrier certifies that it will pass the full discount to the low-income consumer and/or the state has its own Lifeline support (See Section 54.403). In addition, effective October 1, 2000, additional support of up to \$25 per month is available for local phone service for income-eligible members on federally recognized Indian tribal lands.

Link-Up helps low income subscribers initiate telephone service by paying half of the initial installation charge up to \$30.00, and provides support for the carriers that have a deferred payment plan by paying the interest on any balance up to \$200 for up to one year. Effective October 1, 2000, additional Link-Up support of up to \$70 is available for installation charges associated with local phone service for income-eligible members living on reservations. Toll Limitation Support provides support for the incremental cost associated with either toll blocking or toll control, both of which limit low-income consumer's long distance calls. Carriers should maintain records to support the amounts requested under the Low Income support mechanism and to verify that the amounts requested have been applied to reduce charges to low-income consumers. Low-income consumers must meet one of the qualifications as described in Section 54.409. Carriers shall make available the low income Lifeline support and shall publicize its availability.

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### Company Procedures

In order for an ETC to receive reimbursement for the above-described discounts given to low income consumers, it must submit an FCC Form 497 to USAC. NECA is the vendor under contract to USAC to provide support for administering the low-income support mechanism. The forms are reviewed for accuracy and completeness at one of the NECA regions or at NECA headquarters and then the information is entered into the Oracle based system. Only eligible carriers' forms are entered into the system. On the sixth to the last workday of the month, the system is locked for the regions and they can no longer input information. USAC's Low Income staff can input up until the last day of the month when there is a self-imposed lock, and can input again the next day. The system is unlocked for the regions on the third workday of the month.

As of January 1, 2000, the USAC Board authorized the use of monthly projections with quarterly true-ups to be used for distribution of low-income support mechanisms. After the close of each quarter, the projected support mechanism credits distributed for that quarter is trued-up to actual with any required adjustment to be made in the second month following the close of the quarter.

### Objectives

To determine whether:

1. The FCC Form 497s that USAC receives from local exchange carriers are and CETCs reviewed for accuracy and processed according to FCC guidelines and USAC procedures.
2. The data downloaded to USAC treasury is accurate, authorized, and complete.

### Procedures

1. In order to ensure that the Form 497s that are submitted to USAC from the local exchange carriers and CETCs are reviewed for errors, omissions, mathematical errors, accuracy and reasonableness, and input into the system correctly, obtain the Low Income Disbursement Report for the nine month period ended September 30, 2002, and select a sample 40 of carriers and perform the following:
  - a. Clerically test the Disbursement report.

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- b. Trace each amount (Lifeline, Link-up, and Toll Limitation Services) to the Form 497 submitted to USAC by the carrier.
  - c. Clerically test the forms and review for completeness.
  - d. Ensure that a certification statement, signed by an officer of the company accompanies the forms.
  - e. Trace each monthly federal lifeline support amount claimed per subscriber to the low-income state tables detailing the range of data acceptable for this line item for each state and ensure the amount is within range. Support for eligible residents of Tribal lands can be up to an additional \$25.00 per month.
  - f. Ensure each Link Up charges waived per connection line item does not exceed the FCC limit of one half of the connection charge or \$30. For eligible residents of Tribal lands this amount may be increased by \$70.00.
  - g. Ensure that each local exchange carrier and CETC is an Eligible Telecommunications Carrier (ETC) by tracing the company to the Eligible Carrier Status Database.
2. For the companies selected above trace each low-income amount, (Lifeline, Link-Up, and TLS) to the disbursement notification for the applicable month.
3. Mathematically verify the disbursement notification reports for the selected companies and review for completeness.
4. In order to ensure that the monthly disbursements from the Low Income Mechanism are properly authorized and accurate, obtain the Disbursement Authorization Reports, for the month of December and perform the following:
  - a. Obtain the Low Income ETC Monthly Projection Algorithm and mathematically verify the schedule.
  - b. Ensure that the monthly projections were reasonable and were trued-up properly for the carriers selected in AUP step 1.
  - c. Trace the trued-up disbursement amounts to the Low Income Control Report.
  - d. Trace the Accounting totals to an accounts payable control report, and individual payments for selected carriers to check copies or transfers and a bank statement.

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5. Review and test controls that ensure one and only one data collection form is processed for each active ETC on the Exchange Carrier Master File (ECMF).
6. Review projections and note whether any carrier received disbursements based on projections more than 6 months old.

### *Rural Health Care Support Mechanism*

#### Background

The Rural Health Care Division (“RHCD”) of USAC administers the universal service support mechanism for eligible rural health care providers. Auditors should examine RHCD operations to determine, among other things, whether they are properly administering the universal service support mechanisms to prevent fraud, waste, and abuse. Only telecommunications service providers that are common carriers (CCSPs) authorized to receive payment on their request. Participants must have filed a form 498 in order to be eligible to receive payments.

Each month, payments to service providers are netted against the amounts billed to the CCSPs by USAC for their obligation to the USF. This netting process continues each month creating either a receivable for USAC for a debit balance or a payable for USAC for a credit balance. This process continues throughout the year until the projected or actual total annual contribution amount is exceeded. USAC will continue to bill the CCSP if there is a debit balance, and will submit a payment to them when a year-end credit balance is projected or realized. Payments to companies that are considered de minimis are not netted; these service providers receive the payment via check.

The amount requested for reimbursement by the service providers is applied to discount the bill for services rendered to qualified Rural Health Care providers, or the service provider may (optionally) issue a check to a health care provider for any past due monthly discounts. (Typically, applicants do not complete their paperwork or receive funding commitments until after the funding year has started, and they may be eligible for past month discounts which they already paid in full.)

All telecommunications services billed on a non-usage sensitive basis are eligible for support under the Rural Health Care Support Mechanism (the “RHCSM” or the “RHC mechanism”) with no bandwidth or service quantity limits. Applicants may choose to have the RHCD calculate their support by either the difference between the monthly urban rate and the rural rate for telecommunications service and installation charges, or support may be based on the number of miles for which the applicants charged by their service provider.

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In addition, the RHC mechanism provides support to eligible health care providers that cannot obtain toll-free access to the Internet. This support is limited to the lower of 30 access hours or \$180 per month. (However, in the last two program years, no rural health care providers have applied under this provision, presumably because toll-free Internet access has become ubiquitous.)

### Requirements

The Rural Health Care Committee of the USAC Board of Directors and the management of USAC have identified nine support mechanism and internal control requirements that define the scope of this agreed-upon procedures audit plan. These requirements are:

1. Applications for funding received during the window are identified and processed in accordance with the FCC's orders and regulations.
2. Only eligible entities, as set forth in 47 CFR 54.601 (a) and (b), receive support from the Universal Service Fund.
3. Rural Health Care support is committed only for eligible services as defined in 47 CFR 54.601(C).
4. Rural Health Care support is available to telecommunications carriers as defined in 47 CFR 54.5.
5. Rural Health Care support is approved for each applicant in accordance with the requirements contained in 47 CFR 54.603 through 54.617.
6. Rural Health Care support is committed only to eligible health care providers that comply with the competitive bidding requirements contained in 47 CFR 54.603.
7. Telecommunications carriers' invoices are authorized for reimbursement in a timely fashion. Such invoices are authorized only for approved applications and in amounts no greater than the funding commitments made by USAC.
8. USAC performs functions required by Part 54, including: (a) administering the application process for rural health care providers; (b) creating and maintaining a web site that, among other things, posts applications for service from rural health care providers; (c) performs outreach and public education functions; (d) monitors demand for the purpose of determining when the approved funding cap for the Rural Health Care Support Mechanism has been reached; and, (e) submits quarterly demand and administrative expense projections as required by FCC regulations.

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9. USAC makes funding commitments in accordance with available funds as approved by the FCC.

### Objectives:

1. To evaluate the effectiveness of USAC's implementation of controls for compliance with the above requirements.
2. To determine whether changes to the design of the internal controls are needed in light of the evaluation of USAC's implementation of the controls.

### Procedures

#### *General*

1. Meet with the management of the Rural Health Care Division (which should include USAC and NECA management) to confirm understanding of agreed upon procedure work, and to identify and understand the critical processes to be documented and reviewed.
  - a. Perform preliminary, high-level walkthroughs of the processes involved and prepare process maps.
  - b. Obtain a USAC organization chart, including outsourced functions.
  - c. Compile a list of key personnel.

#### *Understanding the Business*

2. To gain a more detailed understanding of each of the relevant RHCSM processes, perform the following:
  - a. Meet with process owners for each identified process pertaining to the receipt, approval and processing of applications and invoices and other relevant processes pertaining to overall administration of the RHC Mechanism.
  - b. Review and document (either narrative or flowchart) the control procedures and process flows for each applicable component process contained within the following activities and applicable FCC forms:
    - Application process
      - FCC Form 465 (Description of Services Requested and Certification Form);

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- FCC Form 466 (Funding Request and Certification Form);
  - FCC Form 467 (Receipt of Service Confirmation Form)
  - FCC Form 468 (Telecommunications Service Provider Form).
- Appeals
  - Fund Management and FCC Reporting (including FCC rule changes review and implementation)
  - Invoices and support payments (credits) processing for RHC Manual Telecommunications Carrier Invoices
3. Obtain and review a copy of the written USAC policies and procedures. Compare the written policies to FCC's Universal Service Rules and Regulations for compliance and comment as to whether the written policies set forth the general framework for compliance with the Universal Service Rules and Regulations, as required.

### *Application Sample Section:*

4. For Funding Year 2002, obtain a data file of all Year 2002 applications as of the last funding wave prior to the selection date for the year ended or subsequent to the year ended December 31, 2002 and select applications for detailed review.
5. Sort and total the number and cumulative funding amount of the applications contained in the Year 2002 data file and compare and agree the totals to the system database totals.
6. Identify and extract the top 10 applications with the highest dollar value for review and verification. Randomly select an additional 15 Year 2002 applications from the remaining population for additional review and verification.
7. For each of the Year 2002 applications selected, obtain a printed copy of the FCC Forms 465, 466, 467, 468, and agree the information contained therein to the corresponding information contained within the Year 2002 data file.

### *Application Process*

8. Compare and agree the service and funding amount per each application selected to the approved funding amount per the corresponding Funding Commitment Letter.

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9. To ensure that FCC Forms 465s received were reviewed timely for errors and omissions, calculate for each of the selected applications, the number of days between the receipt date of the corresponding Form 465 to the posting date per the corresponding health care provider ("HCP") posting letter.
10. Review and test controls to ensure that USAC has made reasonable efforts to determine the eligibility of health care providers requesting support by performance of the following for each application selected:
  - a. Recalculate and verify the Maximum Allowable Distance ("MAD") using 'Street Atlas 5.0' or any other applicable resources.
  - b. Research the USAC Intranet to determine if the applicant is located in an eligible rural area.
11. Review and test the process in place to determine the eligibility of health care providers pursuant to the criteria in Section 54.601, such as public or not for profit entity. For Funding Year 2001 selected applications, verify completion of the applicant self-certification that they are eligible pursuant to the criteria set forth in Section 54.501.
12. Review and test controls to ensure that USAC has verified that telecommunication carriers providing services under the RHC mechanism are on the Telco SPIN list of the RHCD. Simplified Invoice Database ("SID") System. (The SID SPIN list is an abstracted subset of USAC's Customer Database of common carriers. The RHCD does not maintain or verify carriers in USAC's Customer Database.) .
13. Review and test controls to ensure that health care providers receiving support adhered to competitive bidding requirements in accordance with FCC Rules and Regulations, as follows:
  - a. Verify through inquiry and observation, that procedures were in place to document the date that the application was posted to the RHCSM web site (the "posting date"), which commences the 28-day Request for Proposal ("RFP") posting requirement.
  - b. Review the RHCD policies and procedures pertaining to the verification of the application funding requests and the determination of the need for competitive bidding of existing, as opposed to new, services. Verify compliance with the applicable requirements through inquiry, observation, and completion of the following steps (14c through i) for each selected application.

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- c. Verify that an original signed copy of the corresponding Form 465 was received and retained in the file prior to posting the application to the web site.
  - d. Agree the date in the Posting Letter to the applicant to the Form 465 posting date in "Search Postings" on the RHCD website, and verify that the "Allowable Contract Selection Date" (ASCD) noted on the Packet Review Checklist is 29 days after that date.
  - e. For applications with existing telecommunication carrier contracts, review the supporting contract for bid exemption authorization.
  - f. For all other applications, verify that contracts and/or Form 466 were not signed prior to completion of the 28-day competitive bidding period
  - g. Verify completion of the applicable Form 466 Block 3: Certification.
  - h. Verify the timely posting of applications for services by eligible health care providers to the USAC web site, by comparison of the approval date indicated on the selected application Form 465 Supervisor Checklist to the date indicated on the HCP Posting Letters.
  - i. Verify that the support start date used to generate the Support Schedule is the latter of the Service Start Date given by the customer on Form 467, or the Eligible Support Start Date given on the FCL. If the Service Start Date on Form 467 is later than the Eligible Support Start Date on the FCL, verify that the customer was contacted, to notify them that the amount of support would be reduced in accordance with the shorter support period.
14. Review and test controls to ensure the method used to calculate support is in accordance with FCC Rules and Regulations, as follows:
- a. For the five highest dollar amounts committed for funding, recalculate and agree the support amount per the applicable Form 468 internal worksheets to determine that the calculation was performed in accordance with FCC Requirements.
  - b. For each of the five applications selected in Step 15a above, agree the support amount as indicated on the supporting Form 468 internal worksheet to the approved Funding Commitment Letter.
15. Determine the type of service requested and approved in each of the selected applications, and verify the eligibility of approved (telecommunication) services by agreement to the eligible services listed on the RHCSM web site.

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### *Telecommunication Carrier Invoices*

16. To review and test controls pertaining to the receipt and processing of telecommunication carrier invoices and support payments (credits) applied, document and verify, through inquiry, observation, and performance of Steps 23 and 24 below, the procedures pertaining to the receipt and payment of telecommunication carrier invoices.
17. Obtain a data file from RHCD of specified information (i.e., work order number, telecommunications carrier name, service provider identification number ("SPIN"), invoice number and amount) pertaining to all Funding Year 2001 invoices (and invoice line items) processed from the first date of invoice processing through the test date – November 22, 2002. Use the information contained within the data file to select a sample of invoice line items for detailed review and testing.
18. Use computer assisted audit techniques (CAATs) to sort and validate the number of invoice line items and total dollar value of Year 2001 invoices contained within the data file and agree them to the system database totals, noting any exceptions.
19. Determine approximate sample size using a confidence level of 95% and a planned precision rate of 9% with no expected deviations. Randomly select the sample of invoice line items for review using computer software that does not consider population skewness.
20. For each of the invoice line items selected in Step 20 above, obtain and agree the telecommunication carrier name and SPIN, per the telecommunication carrier invoice and the approved HCP Funding Commitment Letter to the data file.
21. For the invoice line items selected in Step 20 above, review and test controls to ensure that invoices from telecommunications carrier agree to, and do not exceed, forecasted support amounts as follows:
  - a. Compare the month and amount of the approved line item selected to the corresponding HCP Application Support Schedule and verify that the line item amount does not exceed the approved "support amount" for the same month per the support schedule.
  - b. Trace and agree the line item amount to the corresponding approved line item amount in the Simplified Invoice Database ("SID").
  - c. Obtain and review the corresponding Invoice Review Checklist for completeness of information required.

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22. For each of the selected telecommunication carrier invoices related to the line items selected in Step 20 above, perform the following:
- a. Agree the Billing Account Number/ Billing Telephone Number (“BTN”) to the HCP Support Schedule.
  - b. Compare the invoice header and line item information to the corresponding information in the SID.
  - c. Agree the invoice amount per the RHCD Manual Telecommunications Carrier Invoice to the RHCD Invoice Reconciliation.
  - d. Add and agree the total line items included on the invoice to the invoice total.
  - e. Identify any line items denied on the invoices selected and verify the propriety of each denial identified in accordance with FCC requirements, by review of the denial reason code indicated on the supporting Invoice Review Checklist.
  - f. Verify that invoices were approved for payment by agreement to the Approved Support File sent to USAC.
  - g. Verify that the invoice dollar amounts submitted to the Universal Service Payment Support (“USPS”) group, administered by IBM (collectively, “USPS/IBM”) for payment processing agree to amounts paid to telecommunication carriers by agreement to the corresponding credit posted to the telecommunication carrier’s Universal Service account.
23. Gain an understanding of, and document, the process by which RHC processes and approves the return of funds from service providers, including the restoration of funding caps and the role of the USPS/IBM group in the receipt and recording of returned funds.

### *Fund Management/Performance in Accordance with Available Funds*

24. Review and test controls to ensure that the support mechanism funding cap is not exceeded.
25. RHCD is required to submit quarterly projections of projected demand to the FCC. Through inquiry and observation as to how the demand projections are determined, ascertain that a reasonable method is used to determine required demand projections.

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### *Outreach, Public Education, and Web Site*

26. Through inquiry and observation, document the outreach and public education efforts to date and plans for the future. Also, inquire as to and document the existence and contents of the Outreach Web site.

### *Rules Changes*

27. Gain an understanding of, and document, the process by which RHCD ensures that all FCC rule changes are identified, documented, and incorporated into the RHCSM funding process.

### *Appeals*

28. Gain an understanding of, and document, the process by which USAC handles appeals from applicants pertaining to fund commitment adjustments and funding request denials.
29. Randomly select a representative number of appeals from the appeals log for both Funding Years 2001 and 2002, and perform the following:
  - a. Obtain the application folders for the sample selected above and agree the HCP name and appeal date from the appeals log to the folder.
  - b. Compare the date received on the selected appeal correspondences to the date of the Fund Commitment Letter and verify that the appeals were received within the 60-day appeal window (30 days if the appeal was submitted prior to September 11, 2001).
  - c. Document the reasons for the applicant's appeal and review the underlying documentation supporting the appeal to verify that appeals were approved or denied in accordance with FCC Support Mechanism guidelines (e.g., eligible services, eligible service providers, discount calculations, etc.).

### *Other*

1. Inquire whether USAC or the Rural Health Care Committee has authorized any internal audits of RHCSM recipients (see Section 54.705(b)(1)(viii) during the calendar year under review (January 1, 2002 to December 31, 2002). If any internal audits have been conducted, obtain and review a copy of the report and note the period of the audit and the date the report was completed.

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### *Schools and Libraries Support Mechanism*

#### Background

The Schools and Libraries (S&L) Support Mechanism (the “S&L Mechanism” or the “SLSM”) is designed to provide all commercially available telecommunications services, Internet access and related internal connections at discounted prices to all eligible schools and libraries based on the level of the economic need. The administration of the SLSM is outsourced to NECA in Whippany, New Jersey. NECA, in turn, has outsourced call center and data entry functions to Pearson Government Solutions (Pearson GS) located in Lawrence, Kansas. All paper applications and invoices are first received by Pearson GS, where data entry and problem resolution are performed. USAC and NECA in Whippany, New Jersey perform all of the remaining processing, monitoring, and funding activity (disbursement activity is administered by USPS/PWC in Fairfax, VA). Auditors should review all operations to determine, among other things, whether they comply with the FCC Rules and Regulations and whether the S&L Support Mechanism is being administered in such a manner designed to minimize exposure to fraud, waste, and abuse. Only service providers that have submitted a completed Form 498 are authorized to receive payment on their request for the S&L Support Mechanism. There are two options for payment for service providers that participate in the SLSM: the netting or non-netting option. The netting option nets the amount billed by USAC to the service provider for the month against the requested amount for reimbursement of discounts given to qualified schools and libraries, thereby creating either a receivable for USAC (a debit balance) or a payable for USAC (a credit balance). A service provider who elects the netting option must continue under this option for the remainder of the calendar year. USAC performs a quarterly review of service provider accounts and submits a payment to the service provider if the credit balance on their account exceeds that service provider’s anticipated contributions for the remainder of the calendar year. Each month, the service providers that choose the non-netting option submit payment for the amount USAC bills them based on revenue amounts submitted on the Forms 499s. They, in turn, will receive a check or ACH wire transfer from USAC for qualifying requests for payment for discounts that they have given to schools and libraries (The Rules for the S&L Support Mechanism are contained in Section 54.500 through 54.520). The Children’s Internet Protection Act (CIPA) was signed into law December 21, 2000 and rules, coded in Section 54.520, implementing the statute are effective April 20, 2001. In order to receive discounts for internet access and internal connections services under the universal services support mechanism for funding years beginning on or after July 1, 2001, where services had commenced on or before October 28, 2001 and the Funding Commitment Decision Letter (FCDL) is dated on or before October 28, 2001 school and library authorities must certify compliance by October 28, 2001. One of the following three following options: (1) they have complied with the requirements of CIPA; (2) they are undertaking actions, including any

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necessary procurement procedures, to comply with the requirements of CIPA; or (3) CIPA does not apply to them because they are receiving discounts for Telecommunications Services only. If either the commencement of services or the FCDL date is after October 28, 2001 date then the applicant must make the certification by the later of 120 days after the commencement of services or 120 days after the FCDL date. If the applicant fails to comply with this requirement the funding request service start date is adjusted to the postmark date of the Form 486 and the amount committed may be reduced. It should be noted that based a recent court decision the filtering provision of the CIPA law has been invalidated for public and private libraries. The Internet safety policy provision still is applicable for all schools and libraries as are the filtering provisions for schools. Applicants have been advised that the required Form 486 and Form 479 CIPA certificates should be interpreted as certifying only to the enforceable provisions of the CIPA law. Procedures have been developed with the FCC to address instances where a library was disadvantaged by the CIPA certification requirements.

### Requirements

The Schools and Libraries Committee of the USAC Board of Directors and the management of USAC have identified the following requirements to support the implementation of the Schools and Libraries Universal Service Support Mechanism:

1. Applications for funding received within the filing "window" are identified and processed in accordance with FCC orders and applicable rules.
2. Only eligible entities receive universal service support.
3. Eligible entities that receive discounts for Internet access and internal connections services must certify that the Children's Internet Safety Policy is being complied with pursuant to Section 54.520.
4. Discount percentages are approved for each applicant in accordance with the criteria specified under the FCC's regulations.
5. Universal Service Fund Support is committed only for eligible services being used for eligible purposes as defined by the Act and the FCC.
6. Vendor invoices are authorized for reimbursement in a timely fashion. Vendor invoices are authorized for eligible services only for approved applications and in an amount no greater than the funding commitment made by USAC.
7. Commitments are made in accordance with available funds as approved by the FCC.

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### Objectives:

1. To evaluate the effectiveness of USAC's implementation of controls for compliance with the above requirements.
2. To determine whether changes to the design of the internal controls are needed in light of the evaluation of USAC's implementation of the controls.

### Procedures:

#### *General Procedures*

1. Meet with management of the Schools and Libraries Division ("SLD") (which should include USAC and NECA management) and other members of the SLD team to gain an understanding of the relevant processes related to the overall administration of the SLSM. In addition:
  - a. Note the funding years covered.
  - b. Perform preliminary, walkthroughs and prepare high-level process maps summarizing the key control points and procedures pertaining to the receipt and processing of SLSM applications and invoices.
  - c. Obtain and review relevant SLD and NECA key personnel lists and organization charts, as well as those pertaining to functions outsourced to Pearson Government Solutions ("Pearson GS") in Lawrence, Kansas.

#### *Understanding the Business*

2. Gain an understanding of each of the relevant processes pertaining to the receipt and approval of applications, as well as the receipt, approval and payment of Billed Entity Application Reimbursements ("BEAR") or Service Provider Invoices ("SPI") for which funding has been approved through the S&L Support Mechanism funding process, and perform the following:
  - a. Meet with the process owners for each relevant function or business process and discuss with them the controls and procedures pertaining to the overall administration of the S&L Support Mechanism which includes the receipt, approval and processing of applications, BEAR or SPI invoices, and other applicable S&L Support Mechanism related processes.
  - b. Perform detailed walkthroughs of each relevant process and prepare narrative memos and/or process maps documenting the control procedures and process flows for each applicable component process

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contained within the following S&L Support Mechanism related activities and applicable FCC forms.

- Application processes
    - FCC Form 470 (Schools and Libraries Universal Service - Description of Services Requested and Certification Form)
    - FCC Form 471 (Schools and Libraries Universal Service - Services Ordered and Certification Form)
    - Entity Block 4 and Modification Process
    - Site identifier correction process
    - Service substitution process
  - Appeals
  - Recovery of erroneously disbursed funds
  - Returned Funds
  - Fund Management and FCC Reporting (including FCC rule change review and implementation)
  - Invoice and support payments (credits) processing
    - FCC Form 486 (Schools and Libraries Universal Service - Receipt of Service Confirmation Form)
    - FCC Form 472 (Billed Entity Application Reimbursement (“BEAR”) Form)
    - FCC Form 474 (Service Provider Invoice (“SPI”) Form)
    - FCC Form 500 (Adjustment to funding Commitment and Modification to Receipt of Service confirmation Form)
    - SPIN Changes
    - Invoice deadline exception requests
- c. Use the information obtained from the detailed walkthroughs to augment the agreed-upon procedures.

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3. Obtain and review a copy of the written SLD policies and procedures. Discuss with management that there is a process in place to monitor compliance with the FCC's Universal Service Rules and Regulations.

### *Controls Over Preliminary Application and Invoice Processing – Subcontractor (Pearson GS) Review*

4. Visit the Pearson GS facility in Lawrence, Kansas and document and evaluate, through inquiry and observation, the control procedures and processes relating to the initial receipt and preliminary processing of applications and invoices, through performance of the following:
  - a. Review the sufficiency of controls pertaining to the receipt of funding applications to ensure that applications received during the filing "window" were appropriately identified, prioritized, and segregated for funding purposes from applications received outside the filing "window." The review should also include an evaluation of the effectiveness of the IT systems (which provide the primary control features in ensuring that funds are committed to "window" applicants first and that funding commitments are then made in the order in which the applications have been received).
  - b. Review the sufficiency of controls pertaining to the receipt of applications and invoices and the tracking procedures utilized by Pearson GS to ensure that all applications and invoices received were accounted for and data entered, as appropriate.

### *Application Sample Selection*

5. Obtain a data file from SLD of specified information (i.e., applicant name, application number, billed entity number, category, state, committed amount,) pertaining to Funding Year 2002 applications by FRN that have been committed as of the selection date 11/22/02. Use the information contained within this "application" data file to select a sample of applications for detailed review and testing.
6. Use CAATs to sort and total the number and cumulative funding value of all of the applications contained within the application data files and compare and agree the totals to the system database totals.
7. Summarize this file by application number. Sort data from highest to lowest application funding amount. Identify and extract the top ten applications for review and verification. From the remaining population, determine approximate sample size using a confidence level of 95% and a planned precision rate of 9% with no expected deviations. Randomly select the

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applications for testing using computer software that does not consider population skewness.

8. Review the number and dollar value of applications processed from the sample selection date (per step 7., above) through year-end December 31, 2002 (the “stub period”). If the applications processed during this stub period are greater than 5% of the total applications processed for the year (either as a percentage of dollars or number of applications) then select an additional sample of (large dollar) applications (minimum 2) for review. If the remaining applications are less than 5% of the total processed for the year than no additional procedures will be performed with respect to the remaining applications.
9. Verify by review of the system, and through inquiry, observation, and execution of the following procedures, that the system is designed to recognize and identify for further follow-up and review, applications that did not meet certain pre-programmed criteria contained within the SLSM system.
10. Using the file requested in step 5., above, use CAATs to extract all FRNs pertaining to the selected applications (step 7.) and agree the total funding value of the extracted FRNs to the total funding value of the selected applications.
11. Select for review a sample of FRNs from the total FRNs associated with the selected applications, as follows:
  - a. For each selected application, select the FRN with the highest dollar value for that application.
  - b. Use computer software that does not consider population skewness to randomly select a sample of additional approved FRNs from the remaining FRNs associated with the selected applications.
12. Obtain from SLD a data file of the application Block 4 (Discount Calculation Worksheet) data. Verify the completeness of the Block 4 data file by agreeing the total number of records contained in the data file to the total number of records contained in the SLD Oracle system.

### *Ensuring that only Eligible Entities Receive Program Support*

13. To ensure only eligible schools and libraries obtain funding through the S&L Support Mechanism and that the schools and libraries meet the definition of eligibility pursuant to applicable FCC regulations, examine the PIA manual supporting this objective and verify compliance with the applicable procedures contained therein through inquiry, observation and completion of Steps 14 through 17 below.

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14. Obtain a data file of all of the information contained within the Requesting Organization SLC (“ROS”) database, maintained by SLD, which includes information regarding the number of students eligible to participate in the National School Lunch Program. Verify the completeness of the ROS data file by agreement of the number of records in the ROS data file to the number of records in the ROS system database.
15. Using CAATs, compare and agree the entity name and number in the ROS database as of the date of the application approval to the Block 4 database. Identify and document any discrepancies. If there is a discrepancies verify that a CMS update was submitted and is pending data entry.
16. Review the selected applications and supporting Simplified Tracking and Application Review System (“STARS”) review notes to identify any applications in which funding amounts have been modified (if none are noted from the original sample, select an additional number of applications, at minimum five) and perform the following:
  - a. Verify the rationale by which SLD determined the entity to be ineligible.
  - b. Verify the funding request and commitment amounts for each of the FRNs associated with the identified modified applications by agreement to the funding commitment display or funding commitment letter.
  - c. Recompute and agree the approved dollar amounts, as follows:
    - i. If the dollars associated with the ineligible entity are easily identifiable, verify that the identified dollar amount was appropriately applied to reduce or deny the FRN; or
    - ii. If the dollars associated with the ineligible entity are not easily identifiable, verify and recalculate the enrollment percentage applied to the FRN amount to verify the correctness of the dollar amounts applied to reduce or deny the FRN.
17. Verify the following for each FRN associated with the identified modified application, identified per Step 16 above:
  - a. For FRNs in which the dollar associated with ineligible entities were less than 30% of the total dollars requested for that FRN, verify that the FRN was appropriately reduced by elimination of the dollar amounts associated with the ineligible entity;
  - b. The balance of the FRN containing discounts for eligible entities will remain eligible to receive funding commitments;

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- c. For FRNs in which the dollars associated with ineligible entities were greater than 30% of the total dollars requested for that FRN, verify by comparison to the funding commitment display that the FRN was denied in its entirety;
- d. For FRNs in which the dollars associated with ineligible entities resulted in a potential modification amount of less than \$50, verify by comparison to the funding commitment display that no reduction was made to the FRN amount.

### *Discount Percentages Comply with FCC Criteria*

- 18. Review the procedures indicated in the PIA manual and procedure updates to ensure that in determining program eligibility USAC properly considers, in accordance with FCC regulations, the level of economic disadvantage of the school, school district, or school district where a library resides, and whether a school or library resides in an urban or rural location. Verify compliance with the applicable procedures contained therein through inquiry, observation, and completion of Step 21 below.
- 19. Through inquiry, observation and completion of Step 21 below, review and validate that requests for discounts on telecommunications and Internet services received funding commitments as first priority followed by requests for internal connections as second priority.
  - a. Use CAATs to ensure that internal connection FRNs in the data file obtained in step 5., above, with a discount percentage below 90%, were denied due to the funding cap.
  - b. Examine the PIA manual and procedure updates supporting this objective.
- 20. Use the sample of selected applications to ensure that (1) discount percentages comply with FCC criteria, and (2) in determining the discount percentage, SLD properly considered in accordance with FCC regulations, the level of economic disadvantage of the school, school district, or school district where a library operates, and whether a school or library operating in an urban or rural location perform the following for each selected application:
  - a. Using the discount calculation formula for each entity included in the selected applications recalculate and agree the level of economic disadvantage based on the percentage of students eligible to participate in the National School Lunch Program, as indicated in the ROS data file.
  - b. Verify through inquiry and observation that support mechanism objectives were satisfied and FCC requirements were fulfilled for applicants using

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- federally approved economic disadvantage level measures other than the National School Lunch Program.
- c. Use CAATs to compare and agree the designation of each of the selected application entities as rural or urban based on, and in agreement with, information contained within the Block 4 data file.
  - d. Select a sub-sample of entities (minimum 20) from the population of entities contained within the selected applications and verify the application of the correct discount percentage by agreement of the discount percentage applied to the SLD Discount Matrix.

### *Program Support is Committed Only for Eligible Services*

21. Use the FRN sub-sample selected, above, to ensure that funding is committed only for eligible services (which included all commercially available telecommunication services provided by telecommunications carriers; Internet access provided by a telecommunications carrier or a non-telecommunications carrier; and costs related to establishing internal connections). In order to prevent second priority requests for discounts from receiving first priority treatment, verify for each FRN selected that the FRN and the related discount that the applicant had identified, in accordance with approved procedures, as telecommunication services or Internet access but upon further examination by SLD are found to contain any requests for support for internal connections, are reclassified by SLD as internal connections as follows:
  - a. Review each of the selected FRNs and verify that only the specific services as indicated on the eligible services list related to that FRN category were included.
  - b. Compare and agree the service and funding amount per each selected FRN to the approved service and funding amount per the corresponding Funding Commitment Letter or display (on-line version of the printed data contained in the Funding Commitment Letter).
  - c. Verify by examination of the PIA review notes for each selected FRN, that services were appropriately classified or reclassified, as applicable.
  - d. Examine the PIA manual supporting this objective and verify compliance with the applicable procedures contained therein through inquiry, observation, and completion of steps 21.a and 21.c., above.
22. Verify by review of the STARS review notes for each selected application that services were appropriately classified or reclassified. For reclassified

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services identified, verify that the FRN and the related discount were appropriately reclassified by SLD.

23. Inquire as to the procedures employed for updating and tracking changes made to the Eligible Services and Products (“ESP”) database. Verify through inquiry and review of the tracking system contained within the database, that changes are captured and tracked.
24. Verify that training in the procedures were provided to PIA staff regarding eligible services and review the procedures required.
25. Review controls to ensure that where SLD has determined that certain services are conditionally eligible for funding, such services are used only for the purposes set forth by SLD in the eligible services matrix, and that the support mechanism funding is committed only for eligible services.
26. Examine the PIA manual supporting these objectives and verify compliance with the applicable procedures contained therein through inquiry, observation, and completion of Steps 22 and 25 above.
27. Review and test controls to ensure that: 1) FRNs, which upon examination by SLD are found to contain less than 30% of ineligible services are adjusted to eliminate the ineligible services from the funding request, and 2) FRNs, which upon examination by SLD are found to contain 30% or more ineligible services, are denied in their entirety. Perform the following:
  - a. Compare and agree the funding request and approved funding amounts for each of the selected FRNs to identify all FRNs (within the sample) which had been modified due to the elimination of ineligible services (if none are noted, an additional sample of modified FRNs will need to be selected and the selection process documented). For each modified FRN identified, compute the percentage change between the funding request and the committed amount and verify that the calculated variance is less than 30%. Verify that the FRN amount had been appropriately adjusted by comparison of the approved amount to the amount per the funding commitment display.
  - b. To test controls over FRNs which contained greater than 30% of ineligible services, and were denied, perform the following:
    - i. Use CAATs to extract all (denied) FRNs with a zero committed amount from the population of FRNs associated with the selected applications. Select a random sample of FRNs (20 minimum) and perform the following:

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- ii. For each of the denied FRNs selected as having been denied due to ineligible services, review the initial funding request and verify the ineligibility of requested service by comparison to the ESP database.
  - iii. Recalculate the percentage of the ineligible services compared to the total funds requested to verify that the ineligible services are greater than 30% of the requested funds.
- c. Examine the PIA manual supporting this objective, and verify compliance with the applicable procedures contained therein through inquiry, observation, and completion of steps 27.a. and b., above.
28. Review and document the Funding Year 2002 process for processing service substitutions.
- a. Select a minimum of ten approved service substitution applications (Form 471) and verify that the substituted Form 471 was properly completed and submitted.
  - b. Review the service substitution Form 471 and verify that the substituted service or equipment did not result in an increase in price and is consistent with the original Form 470 posting, and Request for Proposal(s), if any.
  - c. Perform steps 28.a. and b. above for any substitution applications selected as part of the initial (Application Process) application selection.

### *Child Information Protection Act Compliance*

29. Review and test controls to ensure that the Year 2002 applicants have certified that they have complied with the requirements of the Child Information Protection Act ("CIPA or that CIPA does not apply to them because they are receiving discounts for Telecommunications Services only.
30. For each application selected for testing, review the block certification on Form 486 (Receipt of Service Confirmation Form) verifying compliance with this procedure, and that no funding approval has been granted without the certification for the funding years 2001 and later.

### *Vendor Invoices*

31. Obtain a data file from SLD of specified information (i.e., invoice applicant ID, FRN, application number, invoice type, billed entity number, SPIN, service

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provider name, status of payment, total undiscounted amount and approved (discounted) payment amount, date received and invoice and USAC sent dates) pertaining to all Year 2001 invoices processed through November 18, 2002. Use CAATs to select a sample of invoice line items and test, as follows:

- a. Use CAATs to extract all the negative (returned fund) line items.
  - b. Sort data from the highest to the lowest approved payment amount. Identify and extract the top five dollar value invoice line items for detailed testing.
  - c. Determine approximate sample size using a confidence level of 95% and a planned precision rate of 9% with no expected deviations. Randomly select the additional invoices for testing from the remaining population of invoice line items using computer software that does not consider population skewness.
32. For each of manually submitted invoice line items selected, obtain the corresponding BEAR or SPI, and agree the invoice dollar amount, FRNs, service provider name, SPIN, and Application Number per the invoice data file to the invoice to ensure accuracy and completeness.
33. Agree the invoice line item dollar amount approved for payment, per the SLD Invoice Tracking System, to the USAC Remittance Statements created by the approved payment file sent to the USPS group (now administered by IBM) by SLD.
34. Obtain the following four data files pertaining to Year 2001 invoices and related data through year-end December 31, 2002. Use CAATs to sort the number of records and the total dollar value (as applicable) contained within each of the four data files listed below, and agree them to the corresponding system database totals.
- a. All of the Year 2001 Funding Commitments by FRN (the "Commitment data file");
  - b. All of the Invoice Approved Payment Data by FRN (the "Invoice Payment data file");
  - c. All Year 2001 Form 486 Data (the "Form 486 data file");
  - d. All Year 2001 Form 500 Data (the "Form 500 data file").
35. Use CAATs to verify, on an FRN basis, that the sum of the approved (discounted) payment amount, per the Invoice Payment data file, did not

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exceed the approved funding commitment, per the Commitment data file or that any excess payment is properly recorded in the COMAD database.

36. Use CAATs to extract all the FRNs with a positive approved payment amount from the Invoice data file and verify that a Form 486 was submitted, by comparison to the Form 486 data file.
37. Use CAATs to verify, using the Form 500 data file, that all FRNs with an approved payment amount greater than zero, per the Invoice Payment data file, were not cancelled on a Form 500 or that any excess payment is properly recorded in the COMAD database.
38. Use CAATs to calculate the discount percentage for each FRN, per the Invoice Payment data file, and verify that this discount was not greater than \$3 over the approved corresponding FRN discount percentage, per the Commitment data file and other approved support.
39. Use CAATs to verify that all FRNs with approved payment amounts, per the Invoice Payment data file, were listed as "Funded in Full," per the Commitment data file.
40. Gain an understanding and validate the PIA manual function supporting the automated control system for a selected number of batch processing error codes. Perform a walk through of the PIA manual process followed to resolve such error codes. Review all documentation in the internal tracking system as well as documentation received from third parties.
41. Review and test controls to ensure ad hoc changes in service provider selections (SPIN changes) include applicant certification that (1) the SPIN change is allowed under its state and local procurement rules, (2) the SPIN change is allowable under the terms of the contract between the applicant and its original service provider, and (3) the applicant has notified its original service provider of its intent to change service providers. This does not include global SPIN changes.
  - a. Review and test controls to ensure the amount of funding available for the new service provider is limited to the amount committed on that FRN less the amount paid to the original service provider;
  - b. Review and test controls to ensure USAC does not make additional payments on the FRN until the SPIN change is reviewed and either (1) approved and the SPIN is changed or (2) denied and USAC verifies that additional invoices are for services actually rendered to the applicant by the original provider.

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42. Inquire of management of the controls instituted to prevent vendors from being paid twice for the same invoice.
43. Select an additional sample of invoice line items (minimum ten) to test for the period from the selection date through year end (December 31, 2002), and perform the following alternate procedures for the additional invoice line items selected:
  - a. Verify, by comparison to the funding commitment display, that the invoice dollar amounts approved for payment, on an FRN basis, do not exceed the funding commitment limits or that such FRNs are properly recorded in the COMAD database.
  - b. Trace and agree the service provider name and FRN per the invoice to the approved funding commitment display.
  - c. Trace and agree the FRN line item amount per the invoice to the corresponding FRN line item amount per the USAC remittance statement.

### *Returned Funds*

44. Gain an understanding of, and document the process by which SLD receives, documents, processes, and approves the return of funds from service providers, including the restoration of funding caps and the Billing and Disbursements group's role in the receipt and recording of returned funds.
45. Obtain an electronic copy of the Returned Funds Log from USAC's SLD and an electronic copy of the Returned Funds Log form USAC's Billing and Disbursement group containing all Year 2001 funds returned.
46. From the returned funds 'logs', select a sample of FRNs and ensure that the returned funds were received and appropriately documented and the amounts restored to the corresponding FRN. Compare and agree the returned fund information recorded in the Billing and Disbursement log to the SLD Returned Fund log, noting and investigating any discrepancies.
47. Verify that the selected Returned Funds were appropriately restored back to the beneficiary funding amounts originally granted. Obtain access to the Restored Fund Table from the Oracle database and ensure agreement between records per Oracle and the Returned Fund Log. Document and obtain explanations for any differences identified.

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48. Select a sample of returned funds from the Returned Fund log and perform the following for each returned fund selected:
- a. Verify the initial disbursement of the funds subsequently returned. Trace the FRN selected to the USAC original remittance statement and agree the funding amount returned to the initial approved distribution of funds. For circumstances where only partial funding was returned, verify that the amount returned is less than the original funding amount.
  - b. Trace and agree the FRN and returned funds amount per the Returned Fund Log to the USAC Returned Disbursement Form. Verify information per the USAC Returned Disbursement Form to the corresponding supporting documentation (copy of original check returned; remittance advice for reimbursement check from service provider; or other authorized support, as applicable; for “netted funds” where the amount to be returned is netted against other Form 498 Universal Service obligations) and review for propriety and reasonableness.

### *Fund Management/Performance in Accordance With Available Funds*

49. Discuss and document controls utilized by SLD to ensure that the S&L Support Mechanism funding cap is not exceeded. Understand controls used to ensure all Tier 1 service requests (telecommunication services and Internet access) are funded prior to Tier 2 service requests (internal connections) and that Tier 2 service requests are prioritized for funding based on the approved discount level of the applicant. Discuss and document the establishment of the contingency funding reserve as a measure of protection for appeals or applications where USAC may have made a processing error. In addition:
- a. Review and test controls to ensure that the amount and process for adjustment of this funding contingency has been approved by USAC and the FCC Common Carrier Bureau.
  - b. Review and validate the spreadsheet or other supporting documentation prepared by USAC to support this process.
  - c. Document, discuss, and evaluate the sampling methodology used by USAC to determine anticipated service demand.

### *Outreach, Public Education, and Website*

50. Through inquiry and observation, document the outreach and public education efforts to date and the plans for the future. Also, inquire as to, and document, the existence and contents of the outreach web site.

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### *Rules Change*

51. Gain an understanding and document the process by which SLD ensures that all FCC rule changes are identified, documented, and incorporated into the funding process, as applicable.
52. Verify that any FCC rule changes (from January 1, 2002 through December 2002) have been identified and reviewed for applicability to the SLD funding and approval process, as appropriate.

### *Appeals*

53. Gain an understanding and document the process by which SLD handles appeals from applicants pertaining to fund commitment adjustments and funding request denials.
54. Obtain a data file, as of the date testing is to be performed, of all appeals submitted since the inception of the S&L Support Mechanism. Use CAATs to extract all Year 2001 and Year 2002 appeals into two separate files. Determine approximate sample size using a confidence level of 95% and a planned precision rate of 9% and no expected deviations. Randomly select the appeal sample for each year using computer software that does not consider population skewness.
55. To ensure that appeals received were processed, and approved or denied, in accordance with FCC program guidelines, perform the following for each of the Year 2001 and Year 2002 appeals selected:
  - a. Obtain the appeal folders for the sample selected above and agree the applicant name and appeal date from the data file to the folder.
  - b. Verify that the appeal correspondence was received within the 60-day appeal window from the date the Funding Commitment Letter was mailed or the date of the 486 notification letter, as applicable.
  - c. Document the reasons for the applicants appeal and review the underlying documentation supporting the appeal to verify that the appeal decision complies with FCC program guidelines (i.e., eligible services, eligible entities, discount calculations, etc.).

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*Other*

*Disbursements*

### Objectives

1. To ensure that USAC management (“management”) (and personnel) is performing disbursement functions in accordance with the FCC Rules and Regulations.
2. To ensure that only authorized payments are disbursed when sufficient funds are available.
3. To ensure the payments are accurate and properly authorized.

### Procedures

1. Discuss with management and document disbursement procedures that are in place.
2. Service Providers are required to file a Form 498 (which contains the banking information and the taxpayer identification number) in order to receive requested payments. The Form 498 must be accompanied by a signed letter on (service provider) company letterhead attesting to the accuracy of the information submitted to USAC. The process of submitting this form is referred to as “registration” and authorizes USAC to remit payment in the future. . To verify the propriety of the Form 498 perform the following: from the sample of disbursements selected at each support mechanism level, select a sub-sample of 45 disbursements for review and perform the following for each disbursement selected.
  - a. Request a copy of the service provider Form 498 and verify completeness.
  - b. Ensure that a signed letter accompanies the form on company letterhead attesting to the accuracy of the information submitted.
  - c. Obtain access to the Form 498 database and verify that the Service Providers receiving the selected disbursements are included in the database.
3. Inquire of management on the procedures pertaining to the receipt and processing of service providers’ invoices. Document the process followed to identify those invoices that are to be paid and those invoices that are to be offset against the carrier obligation to the universal service fund. Note the

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process in place for debiting the service providers' accounts either through actual payments or offset against their obligation to the universal service fund. Describe how USAC updates service providers' accounts.

4. In order to perform steps outlined in the AUP related to disbursements, a master file was created that consisted of invoices approved for payment by NECA and disbursements made by IBM. In order to ensure that USAC is processing all electronic payment files timely, perform the following:
  - a. Discuss and document the controls in place to ensure that payments are made on a timely basis.
  - b. Using the "master file," extract line items that are designated as SPIs into one file and those designated as BEARs into another file.
  - c. Using the "master file," sort the payments by BEARs and SPIs, then by batch ID. Verify through review of the corresponding invoice process dates that the batches are paid on a timely basis.
5. All requests for payments are processed in batches, except those requests containing errors, which are excluded from payment. Batch of requests free from errors can be paid at one time when sufficient funds are available for the entire batch.
  - a. Discuss with USAC personnel and document how the daily cash available amount is determined for disbursing funds.
6. In order to ensure that credit balances at year-end are cleared in accordance with FCC Rules Section 54.515 (b) and 54.611 (b), obtain a list of service providers' balances at year-end. Select a sample of service providers and for each service provider selected verify that any credit balance at year-end was cleared subsequently by tracing the credit balance per the listing to a check copy/wire advice noting agreement of payee, amount, and date.
7. Review and test controls to ensure that the monthly disbursements from the High Cost Support Mechanism are properly authorized, in accordance with management's criteria, by reviewing the applicable disbursement's authorization form.
8. Review on a test basis the HCL, LSS, LTS, HCM, ICLS, and IAS Payment amounts for selected months and perform the following:
  - a. Tie the total monthly amount, and the carriers, to the disbursement report for non-pool participants and to the EC 2100 or PSPS28 Adjustment report for NECA participants.

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- b. Inquire and document controls in place to prevent carriers from being compensated twice, through NECA and directly by USAC.
9. Review and test controls to ensure that the monthly disbursements from the Low Income Support Mechanism are properly authorized, in accordance with management's criteria by reviewing the applicable disbursements authorization form.
10. The Low Income Disbursement Report is the monthly report of low-income participants by study area and the total Lifeline, Link-up, and TLS that is due to each participant. This is the file that USAC's treasury downloads and uses as the low-income payment information for each month to determine the amount that is to be transferred to NECA Treasury as the carrier's agent and the amount that is to be directly disbursed to carriers. NECA Treasury then runs the PSPS28, which lists the information that was entered into the PSPS system. For selected months, trace the total Lifeline, Link-up, and TLS amounts from the PSPS 28 report to the Disbursement Authorization.
  - a. Ensure that USAC management properly authorizes the funds transferred from USAC to NECA and the amount does not exceed the total amount due to carriers that have selected NECA as their agent.
  - b. Select a sample of carriers and match the amount disbursed to each carrier by USAC and/or NECA to the amount requested by each carrier. Note any differences.
  - c. Inquire and note controls in place to prevent carriers from being compensated twice, through the NECA pool and directly by USAC.
11. Discuss with management and review procedures in place to inform USAC that the services, which it authorized for payment, have indeed been paid.
12. Review, on a test basis, disbursements for administrative services for proper authorization.
13. Inquire, document and inspect USAC's procedures and controls for identifying and implementing the choice that carriers have made for netting or non-netting contributions with reimbursements for qualified universal services rendered to the Schools and Libraries Mechanism. For the disbursement samples selected for review in the Schools & Library Support Mechanism (AUP 31) and for those Form 498's obtained as a sub-sample in AUP 2, ensure that carriers who elected netting are properly netted and that non-netting service providers received payment.

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14. Obtain a summary of the amounts netted against contributions and/or disbursed directly to carriers. Compare with amounts projected in the filing with the FCC. Note when the amounts netted and/or directly disbursed are in excess of the amount projected.
15. For the Rural Health care disbursements samples selected for review in the Rural Health Care Support Mechanism (AUP 19), ensure that all carriers who are contributors to the USF had netting occur and those that are not received payments.
16. Discuss and document in a memo the procedures implemented as a result of USAC internal audits regarding weaknesses in controls in the application process and the commitment/disbursement of funds.