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KPMG LLP is pleased to submit this performance audit relative to Navajo Nation Library Consortium, Beneficiary No. 233673 ("Beneficiary"), for Funding Year ("FY") 2003, in accordance with our contract with Universal Service Administrative Company ("USAC"). USAC engaged us to perform a series of performance audits for FYs 2002 and 2003 to meet the objectives identified in the Objectives and Scope section of this report.

We conducted our audit from May 2, 2005 through February 7, 2006, in accordance with *Government Auditing Standards (2003 Revision)* issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of our efforts. As such, we have captured in the Conclusion; Audit Findings; Other Matters; and Beneficiary and SLD Responses section of this report a detailed discussion of the audit findings and other matters identified during this performance audit, along with responses to our audit findings and other matters from the USAC Schools and Libraries Division and the Beneficiary, with which we shared the results of our audit.

Since February 7, 2006, we have not performed any additional audit procedures with respect to this report and have no obligation to update this report or to revise the information contained therein to reflect events occurring subsequent to February 7, 2006.

## **Executive Summary**

We were engaged by Universal Service Administrative Company (“USAC”) to conduct performance audits for Funding Years (“FY”) 2002 and 2003. The objectives of our audits were: (1) to provide an independent assessment of selected beneficiaries’ compliance with the regulations governing the *Schools and Libraries Universal Service Support Mechanism* (“SLSM” or “E-Rate”), set forth in 47 C.F.R. Part 54, and certain USAC implementing procedures which were established consistent with 47 C.F.R. Part 54 and other existing laws or regulations (collectively, “the Rules”); (2) to identify selected beneficiaries’ noncompliance, if any, with certain other USAC implementing procedures related to the SLSM; (3) to identify other beneficiary-specific or SLSM-related conditions that we believe warrant the selected beneficiaries’ or USAC’s attention in an effort to provide greater E-Rate program effectiveness or consistency among beneficiaries; and (4) to identify improper payments made from the Universal Service Fund related to the selected beneficiaries for the years under audit.

### **Scope of Audit**

This report relates to the performance audit conducted relative to Navajo Nation Library Consortium, Beneficiary No. 233673 (“Beneficiary”), for FY 2003. The Beneficiary is located in Window Rock, Arizona. This performance audit was conducted in accordance with *Government Auditing Standards (2003 Revision)*.

We collaborated with USAC and the Federal Communications Commission Office of Inspector General to develop our basic workplan, and included other procedures when determined necessary to meet the engagement objectives. The scope of this engagement included, but was not limited to, reviewing the Beneficiary’s processes for program application, service provider selection and contracting, and program cost reimbursement.

For FY 2003, amounts totaling \$2,441,370 were disbursed, as of April 26, 2005, by SLSM on behalf of the Beneficiary under one Funding Request Number (“FRN”). The FRN included amounts for Internet access only.

### **Summary of Testwork**

We performed audit procedures on a Beneficiary-wide level related to the application process for participation in the E-Rate program. Those procedures included reading the Beneficiary's audited financial statements, other financial information associated with the E-Rate Program (i.e., other audit reports, budget data, etc.) and technology plan for FY 2003, and evaluating the Beneficiary's calculations of E-Rate discount percentages for which it applied. Our audit was conducted during the period of May 2, 2005 through February 7, 2006.

We selected one FRN, representing 100% of the total amounts disbursed by SLSM for the Beneficiary related to FY 2003, and performed audit procedures related to the Beneficiary's service provider selection and contracting and program cost reimbursement processes. To test the Beneficiary's reimbursement process, we selected one reimbursement form from the selected FRN, which represented 100% of the disbursed amount under the selected FRN. Further, we performed site visits at nine of the Beneficiary's 111 libraries. During those site visits, we determined that the selected libraries currently had Internet access, which was the service funded for FY 2003 under the selected Beneficiary-wide FRN.

### **Summary of Results**

Based on the audit procedures performed and for the transactions tested, we conclude that the Beneficiary was generally compliant with the Rules identified above for FY 2003, and we identified improper payments of \$28,722. In addition, the results of our audit procedures disclosed two audit findings and one beneficiary-specific other matter, which are reported herein.

## Background

Universal Service Administrative Company (“USAC”) is an independent not-for-profit corporation that operates under the direction of the Federal Communications Commission (“FCC”) pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the Universal Service Fund (“USF”), which was created by The Telecommunications Act of 1996 to ensure that consumers in all regions of the United States have access to quality telecommunications and information services at affordable rates. The USF is comprised of four support mechanisms to ensure that the USF objectives are met. USAC has engaged KPMG to perform a series of performance audits for Funding Years (“FY”) 2002 and 2003, including the performance audit to which this report relates.

The USAC Schools and Libraries Division (“SLD”) administers the *Schools and Libraries Universal Service Support Mechanism* (“SLSM”), which makes advanced telecommunications affordable for the nation’s schools and libraries. Also known as “E-Rate”, this mechanism provides discounts on the cost of telecommunication services, Internet access and internal connections, with the highest discounts going to entities serving the most disadvantaged sections of the population. In both Funding Years (“FY”) 2002 and 2003, over 100,000 schools and libraries were funded by the USF.

Navajo Nation Library Consortium, Beneficiary No. 233673 (“Beneficiary”), the subject of this audit, is comprised of 111 libraries located throughout Navajo Nation. The Beneficiary is located in Window Rock, Arizona. For FY 2003, as of April 26, 2005, SLD received a request for \$2,997,000 for Internet access from the Beneficiary, and committed and disbursed \$2,830,500 and \$2,441,370, respectively, as summarized in Table 1 below:

**TABLE 1: FY 2003 Dollars Requested, Committed and Disbursed**

Service Category	Requested			Committed			Disbursed		
	# FRNs	Dollars	%	# FRNs	Dollars	%	# FRNs	Dollars	%
Telecommunications	0	\$ 0	0.0%	0	\$ 0	0.0%	0	\$ 0	0.0%
Internet Access	1	2,997,000	100.0%	1	2,830,500	100.0%	1	2,441,370	100.0%
Internal Connections	0	0	0.0%	0	0	0.0%	0	0	0.0%
<b>Totals</b>	<b>1</b>	<b>\$ 2,997,000</b>	<b>100.0%</b>	<b>1</b>	<b>\$ 2,830,500</b>	<b>100.0%</b>	<b>1</b>	<b>\$ 2,441,370</b>	<b>100.0%</b>

## Objectives and Scope

The performance audit was conducted in accordance with *Government Auditing Standards (2003 Revision)*.

The workplan was developed in coordination with USAC and the Federal Communications Commission Office of Inspector General (“FCC OIG”). The objectives of the performance audit were:

- (1) to provide an independent assessment of selected beneficiaries’ compliance with the regulations governing the *Schools and Libraries Universal Service Support Mechanism* (“SLSM” or “E-Rate”), set forth in 47 C.F.R. Part 54, and certain USAC implementing procedures which were established consistent with 47 C.F.R. Part 54 and other existing laws or regulations (collectively, “the Rules”);
- (2) to identify selected beneficiaries’ noncompliance, if any, with certain other USAC implementing procedures related to the SLSM;
- (3) to identify other beneficiary-specific or SLSM-related conditions that we believe warrant the selected beneficiaries’ or USAC’s attention in an effort to provide greater E-Rate program effectiveness or consistency among beneficiaries; and
- (4) to identify improper payments made from the Universal Service Fund related to the selected beneficiaries for the years under audit.

For purposes of this report, the following definitions are provided:

<b>Audit finding</b>	a condition that, in our judgment, evidences non-compliance with the Rules
<b>Other matter</b>	a condition that, in our judgment, evidences non-compliance with USAC implementing procedures not considered in the definition of the Rules or is a condition we believe warrants the Beneficiary’s or USAC’s attention, in an effort to provide greater E-Rate program effectiveness or consistency among beneficiaries
<b>Improper payment</b>	a reimbursement made that, in our judgment, was not in accordance with the Rules

Following is the timeline and phases for this performance audit:

- Planning May 2 – 6, 2005
- Fieldwork May 9 – 20, 2005
  - Entrance Conference May 9, 2005
  - Exit Conference May 20, 2005
- Wrap-Up / Reporting May 23, 2005 – February 7, 2006

Throughout the fieldwork phase, status updates were provided to the Beneficiary, allowing timely discussions and follow-up on potential audit findings and other matters. Upon completion of fieldwork, an exit conference was held with the Beneficiary to discuss the results of the audit and the beneficiary response process. Beneficiary responses are included in the “Conclusion; Audit Findings; Other Matters; and Beneficiary and SLD Responses” section of this report.

We performed the audit procedures described in this report primarily at the Beneficiary’s location and by using information provided to us by USAC and the Beneficiary in advance of our visit to the Beneficiary. As part of the scope of our performance audit, we obtained an understanding of the specific internal controls relevant to the E-Rate program. Because of inherent limitations, a study and evaluation made for the limited purpose of the performance audit would not necessarily disclose all material weaknesses in the internal control structure. Further, this performance audit was not designed to, and does not, include a conclusion or opinion on the Beneficiary’s internal control processes.

The performance audit procedures were classified in the following categories: General Procedures; Application Process; Service Provider Selection and Contracting Process; and Reimbursement Process. Following is a summary of the audit procedures performed:

#### **General Procedures**

General procedures are those audit procedures that address matters that are not related to any of the identified processes, or those that may have related to all of the identified processes.

*FRN Selection for Testing*

We selected one Funding Request Number (“FRN”) related to the Beneficiary for FY 2003. An FRN is the tracking number assigned by SLD to an E-Rate application for funding. Table 2 below includes a summary of the amounts disbursed by SLSM related to the Beneficiary for FY 2003 in total and under the selected FRN, as of April 26, 2005:

**TABLE 2: FY 2003 Disbursed Dollars in Total and Selected for Testing**

Service Category	# FRNs	Total Disbursed		% of Total Disbursed Dollars by Category	# FRNs	Disbursed Dollars for Selected FRNs		% of Total Disbursed Dollars Selected
		Dollars	Dollars			Dollars	Dollars	
Telecommunications	0	\$	0	0.0%	0	\$	0	n/a
Internet Access	1		2,441,370	100.0%	1		2,441,370	100.0%
Internal Connections	0		0	0.0%	0		0	n/a
<b>Totals</b>	<b>1</b>	<b>\$</b>	<b>2,441,370</b>	<b>100.0%</b>	<b>1</b>	<b>\$</b>	<b>2,441,370</b>	<b>100.0%</b>

*Review of Other Audit Reports*

We were unable to obtain the Beneficiary’s Office of Management and Budget (“OMB”) Circular A-133 audit report for the fiscal year including FY 2003 because the audit was not completed at the time of this performance audit. Accordingly, we read the most recent OMB Circular A-133 audit report, which was for the fiscal year ended September 30, 2002, to identify any findings that may have impacted the Beneficiary’s compliance with the Rules. While that report cited many reportable conditions, only one (related to maintenance of procurement records) would have potentially related to compliance with the Rules. We considered the potential effect of that matter while performing our performance audit.

We also inquired of USAC and FCC OIG as to whether any other audits or investigations of the Beneficiary, relative to the E-Rate program, had been, or were being, conducted by their respective audit staffs. No such audits or investigations were identified.

## Application Process

### *Introduction*

To participate in the E-Rate program, a potential beneficiary must meet certain eligibility requirements. For purposes of this audit, we considered the Beneficiary's financial position, compliance with the Rules related to the Beneficiary's technology plan, and the calculation of the Beneficiary's discount percentage upon application to USAC.

### *Summary of Audit Procedures*

We obtained and read the Beneficiary's Technology Plan for FY 2003 and determined whether it was properly and timely approved and included the core elements of successful school and library technology initiatives as identified by USAC.

We examined documentation supporting the Beneficiary's E-Rate discount percentage calculation. To validate the accuracy of the discount percentage, we recalculated the discount percentage in accordance with the eligibility rules for the E-Rate program.

We determined, by reference to the Beneficiary's fiscal year budgets, or other proof of funding, whether the Beneficiary had all of the necessary funding budgeted / available and approved to pay for its non-discounted portion of the requested service for FY 2003.

We examined documentation provided by the Beneficiary to determine whether a staff training program, designed to instruct staff how to implement the requested services, was in place at the time of application for E-Rate funding.

We determined through inquiry of Beneficiary personnel and observation during our site visits (see "Reimbursement Process – Summary of Audit Procedures" below) whether the Beneficiary had the appropriate hardware and software infrastructure to utilize the goods and services for which E-Rate funding was requested.

By examination of E-Rate related documents provided by both USAC and the Beneficiary, we determined whether the Beneficiary indicated compliance with certain requirements of the Children's Internet Protection Act ("CIPA") for FY 2003. Further, we gained an understanding of the Beneficiary's Internet Safety Policy, and the process by which the Beneficiary communicates and administers that policy. During site visits to a selection of the Beneficiary's consortium libraries (see "Reimbursement Process" below), we tested certain computers to validate the existence of the Beneficiary's technology protection measure (i.e., filter).

### *Summary of Audit Findings and Other Matters*

When performing the application process audit procedures, we identified two audit findings related to the Beneficiary requirement to have a sufficient and approved technology budget to cover the non-discounted portion of the E-Rate funds requested prior to filing an FCC Form 470 and discrepancies in the discount calculation, which are reported as Audit Finding Nos. 233673-F-2003-01 and -02 herein.

### **Service Provider Selection and Contracting Process**

#### *Introduction*

The service provider selection and contracting process includes the procurement process and competitive bidding process, when applicable, by which the Beneficiary selected its E-Rate service providers and established its related contracts for eligible goods and/or services. The audit procedures addressed the Beneficiary's procurement process and the eligibility of goods and services procured using E-Rate funds.

#### *Summary of Audit Procedures*

From the one selected FRN, we selected 100% of the related reimbursement forms for use in performing the audit procedures related to the service provider selection and contracting and reimbursement processes. See Appendix 1 for identification of the selected FRN and reimbursement form.

We obtained an understanding of the Beneficiary's service provider selection and contracting process, including the related competitive bidding activities, through discussions with Beneficiary personnel and review of documentation provided by the Beneficiary. We used this information to determine if the design of that process was consistent with the Rules. For the service provider associated with the selected FRN, we determined whether the Beneficiary followed its service provider selection process procedures, including those for competitive bidding (as applicable), and properly completed and utilized FCC Forms 470 (Services Requested and Certification Form) and 471 (Services Ordered and Certification Form). We also inquired as to what, if any, assistance the Beneficiary received relative to completion of the FCC Forms and selection of the winning bidders. Further, we determined whether the selected service provider had properly completed FCC Form 473 (Service Provider Annual Certification) for FY 2003.

For each product or service acquired under the selected FRN, we obtained the service provider bill and related contract. The products and/or services identified on each bill and contract were compared to the FY 2003 Eligible Services List (“ESL”) published by SLD to determine if those products and/or services were appropriate for E-Rate discount under the Rules. The selected products and/or services identified on the service provider bill and contract, for which discounts were sought, were also compared to the Beneficiary’s FCC Form 470 to determine consistency of products and/or services described therein.

*Summary of Audit Findings and Other Matters*

We identified no audit findings or other matters in performance of the service provider selection and contracting process audit procedures to be reported herein.

**Reimbursement Process**

*Introduction*

The reimbursement process encompasses the Beneficiary’s procedures for processing and paying invoices for allowable program disbursements, the Beneficiary and service providers’ requests for reimbursement from SLSM, and the receipt of reimbursed discounted amounts by the Beneficiary from the service providers, in cases where the Beneficiary had paid such amounts to the service providers prior to disbursement by SLSM. The audit procedures for this process addressed each of the foregoing and included site visits to selected libraries to determine if the service, for which disbursement was made by SLSM, were operational at the time of our visit.

*Summary of Audit Procedures*

We obtained an understanding of the Beneficiary’s cash disbursement process, including invoice review and approval requirements, from discussion with, and documentation provided by, Beneficiary personnel to determine if the design of that process included safeguards to prevent violations of the Rules. For the selected reimbursement form (identified in Appendix 1), we determined whether the related service provider bill (either in its entirety or for the beneficiary portion only) was paid in accordance with the Beneficiary’s cash disbursement process and that the cost for products and/or the services appeared reasonable. If the service provider bill included any substitute products or services, we compared those items to the FY 2003 ESL and to the substitution authorization issued by SLD.

We obtained the selected reimbursement form prepared by the service provider (FCC Form 474 – Service Provider Invoice (“SPI”). The discount percentage claimed on that reimbursement form was compared to that approved by USAC in the Funding Commitment Decision Letter issued to the Beneficiary and verified whether it was applied appropriately.

For the selected reimbursement for which a SPI form was submitted by the service provider, we compared the related bill to the SPI form to determine whether the service provider sought reimbursement for the appropriate amount from SLSM and whether total billed cost (to SLSM and to the Beneficiary) was less than or equal to the total cost of the eligible service authorized under the FRN.

We also determined whether the Beneficiary requested reimbursement for less than the amounts committed by USAC under the selected FRN. If so, and the amount of unused commitment exceeded \$1,000, we determined whether an FCC Form 500 was completed and filed with USAC.

We selected the Beneficiary’s libraries identified in Table 3 below for site visits. The number of libraries selected for site visits was determined based on the budgeted time to conduct the site visit component of the performance audit, while attempting to achieve the following two objectives: (1) select at least 5 of the Beneficiary’s libraries which received service funded by the USF in FY 2003 under the selected FRN and (2) include libraries in our selection which from each of the consortium members’ governing agencies.

**TABLE 3: Locations Selected for Site Visits**

<b>Entity Number</b>	<b>Library Name</b>
233548	Round Rock Chapter
233596	Tsaile/Wheatfields Chapter
233547	Rock Springs Chapter
233597	Tasyatoh Chapter
233494	Fort Defiance Chapter
233572	St. Michael Chapter
233525	Naschitti Chapter
233530	Newcomb Chapter
233480	Chilchinbeto Chapter

For each site visit, personnel with responsibility for overseeing and/or implementing the technology plan were interviewed. The purpose of the interviews were: (1) to determine that the E-Rate funded products and/or services included in the selected FRN had been received at the library; and (2) to gain an understanding of the use being made of the service and how the purchased equipment, if any, is safeguarded.

*Summary of Audit Findings and Other Matters*

We identified no audit findings in performance of the reimbursement process audit procedures. However, we did identify one beneficiary-specific other matter related to the timely filing of an FCC Form 500, which is reported as Other Matter No. 233673-M-2003-01 herein.

**Conclusion; Audit Findings; Other Matters; and Beneficiary and SLD Responses**

In reaching our conclusion on compliance related to the audit procedures performed and the transactions tested during the performance audit, we considered and based that conclusion on the number of audit findings and the monetary effect of such audit findings.

**Conclusion**

Based on the audit procedures performed and for the transactions tested, we conclude that the Beneficiary was generally compliant with the Rules identified above for FY 2003. The results of our auditing procedures disclosed two audit findings related to the Beneficiary requirement to have a sufficient and approved technology budget to cover the non-discounted portion of the E-Rate funds requested prior to filing an FCC Form 470 and discount calculation discrepancies, which are reported below as Audit Finding Nos. 233673-F-2003-01 and -02.

In addition, the results of our audit procedures disclosed one beneficiary-specific other matter related to the timely filing of an FCC Form 500, which is reported below as Other Matter No. 233673-M-2003-01.

\* \* \* \* \*

**Audit Finding**

***Audit Finding No.***                    **233673-F-2003-01**

***Condition***                                In FY 2003, Navajo Nation Library Consortium's budget was not approved before submission of its FY 2003 FCC Form 470 in January 2003. The 85% of the budget that was funded through the grant agreement with the Bill and Melinda Gates Foundation was not signed until August 2003, seven months after the Beneficiary submitted its FCC Form 470. In addition, the budgeted amount of \$520,117 was not sufficient to cover the non-discounted portion of E-Rate services originally requested, which totaled \$528,882.

***Criteria***                                    Per FCC Rule 54.504(b)(2)(v), applicable for FY 2003, at the time the Beneficiary submits the FCC Form 470, all of the necessary funding must have been budgeted and approved to pay for its non-discounted portion for the requested assets and services for the funding year.

***Cause***                                        The grant acceptance process of the Beneficiary does not lend itself to the timing required by the Rules.

***Effect***                                        There is no monetary effect from this audit finding, since all non-discounted costs were paid by the Beneficiary to the service provider.

***Recommendation***                        KPMG has no recommendation for the Beneficiary at this time and notes that the above referenced criterion is no longer included in the Rules.

***Beneficiary Response***                    The Grant acceptance process within the Navajo Nation Government is a very timely process. This grant was the last of the three-part grant from the Bill and Melinda Gates Foundation to the Navajo Nation that began in 2001. The process of the third grant started in Oct. 2002 and was [not] final signed by the Navajo Nation until August 2003.

*SLD Response*

In two places of the application process, the applicant is required to certify to certain information with respect to securing access to the resources necessary to use the services for which discounts are being sought. First, in Item 23 of the FCC Form 470 the applicant acknowledges that it is required to have "...all of the resources, including computers, training, software, internal connections, maintenance, and electrical capacity necessary to use the services purchased effectively." The applicant also certifies "... that some of the aforementioned resources are not eligible for support." Second, in Item 25 of the FCC Form 471, the applicant certifies that it has "secured access, separately or through this program, to all of the resources, including computers, training, software, internal connections, maintenance, and electrical capacity, necessary to use the services purchased effectively....[It] certif[ies] that the Billed Entity will pay the non-discount portion of the cost of the goods and services to the service provider."

Funding Year 2002 program rules required that the applicant have the required resources when it filed its FCC Form 470. On August 13, 2004, the FCC changed the rules and modified this requirement in the Fifth Report and Order<sup>1</sup>. The new FCC rule 54.504(b)(2)(vi) states that "[s]upport under this support mechanism is conditional upon the school(s) and library(ies) securing access to all of the resources, including computers, training, software, maintenance, internal connections, and electrical connections necessary to use the services purchased effectively." Schools and libraries, therefore, are no longer required to have secured access to the necessary resources at the time they file the FCC Form 470.

The fact that Navajo Nation Library Consortium paid its non-discounted share indicates they had the resources; therefore, no recovery is required. USAC concurs with the audit finding.

<sup>1</sup> See *Fifth Report and Order* at para. 66.

**Audit Finding No.** 233673-F-2003-02

**Condition** We recalculated the discount rates for each entity included on the FCC Form 471 using the October 2002 NSLP data provided by Arizona DOE and New Mexico DOE, and we found the following differences with the rates on the Form 471:

- (1) For the 26 libraries/chapter houses located in the Gallup McKinley district, the discount rate should have been 90% instead of 80%;
- (2) For the 14 libraries/chapter houses located in the Central Cons district, the discount rate should have been 80% instead of 90%;
- (3) For the seven libraries/chapter houses located in Window Rock Unified District, the discount rate should have been 90% instead of 80%; and
- (4) For the one library/chapter house located in Flagstaff Unified District, the discount rate should have been 70% instead of 60%.

The overall discount rate increased from 85% to 86%.

**Criteria** FCC Rule 54.505 addresses discount calculations. Block 4 of the FCC Form 471 outlines student enrollment, number of students under the National School Lunch Program (“NSLP”), percentage of NSLP students over total students enrolled, discount percentage assigned from the SLD Discount Matrix, and specific information about the entity such as entity number and name. In addition, USAC Implementing Procedures state that the discount calculation on the FCC Forms 471 should be appropriately supported by documentation.

**Cause** The Beneficiary made errors in entering the NSLP data on the FCC Form 471.

**Effect** The monetary impact as a result of this audit finding was \$28,722, which represents the additional funding the Beneficiary would have received from SLSM had the Beneficiary applied the 86% discount rate.

***Recommendation*** We recommend the Beneficiary apply the correct discount percentages to the entities when completing the FCC Form 471, block 4.

***Beneficiary Response*** Since it was the first time we applied for E-Rate funds, we used the overall district information to calculate the discount not by individual schools. Since then we have established a system by working with the three states, New Mexico, Arizona, and Utah, that will give a more accurate discount rate for the chapter/libraries during future applications.

***SLD Response*** Going forward, the applicant should reference FCC rule 47 C.F.R. §54.505, which discusses how an applicant must calculate its discount percentage. Further guidance can also be found in the instructions to the FCC Form 471 and on USAC's website. USAC concurs with the recommendation that the applicant apply the correct discount percentages to the entities when completing the FCC Form 471.

**Other Matters**

***Other Matter No.*** 233673-M-2003-01

***Condition*** Subsequent to completion of the fieldwork phase of our audit, the final reimbursement forms for FY 2003 were filed for the Beneficiary. Total disbursements for FY 2003 amounted to \$2,756,183, which was \$74,317 less than the committed amount of \$2,830,500. The unspent funds were not adjusted in a timely manner by utilizing FCC Form 500.

***Criteria*** Per the FCC Form 500 and related instructions, beneficiaries should complete an FCC Form 500 to modify any FRN for which funds are not completely expended. By filing an FCC Form 500, the unexpended funds become available for potential award to other beneficiaries.

<b><i>Cause</i></b>	The Beneficiary was unaware of the need to file an FCC Form 500.
<b><i>Effect</i></b>	There is no monetary impact on the Beneficiary as a result of this other matter; however, unused amounts for FY 2003 of \$74,317 could have, potentially, been utilized for other applicants.
<b><i>Recommendation</i></b>	The Beneficiary should file an FCC Form 500 when it determines committed funds will not be used during the funding year to release or cancel the FRNs so that the funds committed could be released and reallocated by USAC as needed.
<b><i>Beneficiary Response</i></b>	Since my first year of experience of the E-Rate system, I have improved my knowledge and will continue to build on that knowledge. I also did not receive any notice that I had unclaimed funds that needed attention. If I had received some type of notice, I would have made a better effort to take care of the situation.
<b><i>SLD Response</i></b>	There is no E-rate program rule requiring applicants to complete FCC Form 500 to report unexpended funds. Through outreach and training, USAC will continue to encourage applicants to complete and submit FCC Form 500 when committed funds are not needed. USAC concurs with this matter and recommendation.

### **Improper Payments**

Based on the audit procedures performed and for the transactions tested for FY 2003, we noted improper payments in the amount of \$28,722 related to Audit Finding No. 233673-F-2003-02.

**APPENDIX 1: Selected FRNs, Related Reimbursement Forms, and Reimbursement Forms Selected for Testing**

Selected FRNs	SPIN #	Service Provider	Form Type	Reimbursement Forms for Selected FRNs		Reimbursement Forms Selected for Testing	
				#	\$\$\$	#	\$\$\$
1050114	143025159	OnSat Network Communications, Inc.	BEAR-472	0	\$ 0	0	\$ 0
			SPI-474	1	2,441,370	1	2,441,370
			Total	1	\$ 2,441,370	1	\$ 2,441,370