

## Semi-Annual Audit Recovery Report

In the *Schools and Libraries Fifth Order*<sup>1</sup> the Federal Communications Commission (FCC or Commission) directed the Universal Service Administrative Company (USAC) to “submit a report to the Commission on a semi-annual basis summarizing the status of all outstanding audit findings. To the extent findings cannot be resolved within six months, USAC shall describe the status of its efforts, and provide a projected timeframe for completion.”<sup>2</sup> This report summarizes outstanding audit-related recoveries as of February 28, 2006, and consists of this three-page descriptive narrative as well as the spreadsheet attached.

### **Process for Seeking Recovery of Funds**

The process of seeking recovery based on an audit finding is comprised of the following stages:

1. Within 30 days of the USAC Board of Directors deeming an audit report final, USAC issues a Notification of Commitment Adjustment Letter or Notification of Recovery of Improperly Disbursed Funds Letter (both referred to as Notification Letter in this document) to the applicant and/or service provider as appropriate.
2. If the applicant and/or service provider does not appeal the Notification Letter within 60 days, USAC issues the First Demand Payment Letter on the 61<sup>st</sup> day.
3. If the applicant and/or service provider does not respond to the First Demand Payment Letter, or does not make satisfactory arrangements to repay the funds within 30 days of the First Demand Payment Letter, a Second Demand Payment Letter is sent and the Red Light is turned on for that applicant and/or service provider.<sup>3</sup> The Commission allows applicants and/or service providers to enter into payment plan arrangements with USAC to pay the recovery amount.<sup>4</sup>
4. If the applicant and/or service provider does not respond to the Second Demand Payment Letter, or does not make satisfactory arrangements to repay the funds within 60 days of the Second Demand Payment Letter, USAC will advise the Commission of that fact, and the debt will be transferred to the Commission under the provisions of the Debt Collection Act, as amended.<sup>5</sup>

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<sup>1</sup> See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808 (2004) (*Schools and Libraries Fifth Order*).

<sup>2</sup> *Id.* ¶ 77.

<sup>3</sup> In the *Schools and Libraries Fifth Order*, the Commission amended its “rules to bring all E-rate beneficiaries and service providers within the ambit of the red light rule.” *Id.* ¶ 42.

<sup>4</sup> *Id.* ¶ 42.

<sup>5</sup> 31 U.S.C. §§ 3701 *et seq.*

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5. If an appeal is filed either with USAC or the Commission, the recovery process is held in abeyance pending resolution of the appeal.

In the absence of an appeal or direction from the Commission to hold the process in abeyance, the time period from the issuance of the Notification Letter to final collection by USAC or the transfer of the debt to the Commission is four months.

### **Description of Audit Findings Outstanding for More Than Six Months**

The recoveries based on audit findings that have been outstanding for more than six months fall into the following nine categories:

- There are four audit findings with a recovery amount of \$8,831,859 for which Notification Letters have not been issued. The letters have not been issued because USAC was working with Commission staff to determine the party from whom recovery should be sought for these particular findings. USAC recently received direction from Commission staff with respect to two of these findings and will resume processing these recoveries. There are no other audit findings older than six months that have either not been cleared, or have resulted in the issuance of a Notification Letter to either the applicant and/or service provider, as appropriate and as further explained below.
- From January through April 2005, USAC issued Notification Letters for 70 Funding Request Numbers (FRNs) with a recovery amount of \$1,296,378 based on the guidelines set forth in the Commission's *Schools and Libraries Fourth Order*<sup>6</sup> and *Schools and Libraries Fifth Order*. In April 2005, USAC suspended issuing Notification Letters or Demand Payment Letters in certain situations based on direction from Commission staff. USAC recently received direction from Commission staff with respect to the majority of these situations and will resume processing these recoveries.
- For certain audit findings outstanding for more than six months, USAC is in the process of seeking recovery based on the audit findings as follows. The process has been ongoing for more than six months because the applicant and/or service provider appealed the recovery determination to USAC and/or the Commission. The recovery process was held in abeyance pending USAC and/or the Commission's decision on appeal. USAC and/or the FCC have decided the appeal, and so the process of recovery has resumed.

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<sup>6</sup> See *Federal-State Joint Board on Universal Service, Changes to the Board of Directors for the National Exchange Carrier Association, Schools and Libraries Universal Service Support Mechanism*, CC Docket Nos. 96-45, 97-21, 02-6, Order on Reconsideration and Fourth Report and Order, 19 FCC Rcd 15252 (2004) (*Schools and Libraries Fourth Order*).

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- The recovery process was held in abeyance for 144 FRNs with a recovery amount of \$8,378,495 because the applicant and/or service provider has appealed USAC's recovery determination to USAC. A significant portion of these include the types of situations referred to above. USAC recently received direction from Commission staff with respect to the majority of these situations and will resume processing these recoveries.
- The recovery process is being held in abeyance for 328 FRNs with a recovery amount of \$5,231,154 because the applicant and/or service provider has appealed USAC's recovery determination to the Commission.
- The applicant and/or service provider has not paid the funds to USAC and has not made satisfactory arrangements for payment of the funds. Consequently, the debt has been transferred to the Commission under the Debt Collection Act, as amended. To date USAC has transferred \$3,514,030 to the Commission's Office of the Managing Director (OMD).
- The audit performed consistent with the Commission's *Puerto Rico Department of Education Order*<sup>7</sup> covering Funding Years 1998 through 2000 has been approved by USAC's Board of Directors and provided to Commission staff. In that order, the Commission stated that it – rather than USAC -- would review the results of that audit to determine what recovery action would be appropriate.<sup>8</sup> Consequently, while the audit has been deemed final for more than six months, recovery amounts that may eventually be associated with the results of that audit are not included on the attached spreadsheet.
- The applicant has stated they will repay the funds, but is going through their internal approval process prior to remitting funds to USAC. Based on communication with the applicant, USAC anticipates receiving a payment of \$4,031,786.70 by the end of March 2006.
- USAC has received two requests for a payment plan<sup>9</sup> which have not yet been approved. There are nine FRNs that fall into this category with an associated recovery amount of \$88,613.

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<sup>7</sup> *Federal-State Joint Board on Universal Service, Petition of the Puerto Rico Department of Education to Release Funds Associated with the Schools and Libraries Universal Service Support Mechanism for Years 2001 and 2002*, CC Docket No. 02-06, Order, 18 FCC Rcd 25417 (2003)(*Puerto Rico Department of Education Order*).

<sup>8</sup> *See id.* ¶¶ 2, 25.

<sup>9</sup> *Schools and Libraries Fifth Order* ¶ 42.

Universal Service Administrative Company  
Schools and Libraries Support Mechanism

Semi-Annual Audit Recovery Report  
Data as of 02/28/06

Fund Year	1998	1999	2000	2001	2002	Grand Total
Total Number of Audits Performed	23	47	166	12	28	276
Total Audited Amount	\$168,062,289	\$283,156,907	\$643,601,903	\$35,447,073	\$49,547,645	\$1,179,815,817
Amount Sought for Recovery	\$619,963	\$9,659,024	\$18,917,612	\$10,842,895	\$207,176	\$40,246,669
\$ Recovered To Date	\$502,614	\$890,481	\$2,430,768	\$2,203,240	\$3,032	\$6,030,135
\$ Sent to OMD for Recovery	\$6,300	\$779,652	\$2,669,595	\$58,483		\$3,514,030
Balance Remaining	\$111,049	\$7,988,890	\$13,817,249	\$8,581,172	\$204,144	\$30,702,504
<b>STAGES OF RECOVERY</b>						
\$ Notification Letter Pending			\$357,349	\$8,460,810	\$13,700	\$8,831,859
# of Billed Entities			1	2	1	
\$ Notification Letter Issued		\$716,048	\$27,290	\$8,186	\$5,436	\$756,960
# of Billed Entities		2	3	1	1	
\$ 1st Letter		\$13,785	\$1,301,837		\$10,363	\$1,325,985
# of Billed Entities		2	2		2	
\$ 2nd Letter	19,828	\$114,795	\$80,694			\$215,317
# of Billed Entities	1		1			
\$ Hold - Policy		\$41,459	\$1,699,398	\$5,280	\$16,298	\$1,762,435
# of Billed Entities		2	27	1	4	
\$ Hold - Payment Plan			\$88,613			\$88,613
# of Billed Entities			2			
\$ Hold -Payment in Process		\$4,031,787				\$4,031,787
# of Billed Entities		1				
\$ USAC Appeal Pending		\$934,303	\$7,363,630	\$32,697	\$47,865	\$8,378,495
# of Billed Entities		1	6	1	1	
\$ Placed on Red Light			\$79,900			\$79,900
# of Billed Entities			2			
\$ FCC Appeal Pending	\$91,221	\$2,136,715	\$2,818,537	\$74,199	\$110,482	\$5,231,154
# of Billed Entities	2	12	7	2	2	
Total of Stages of Recovery						\$30,702,504

The total number of audits performed includes audits that covered more than one year. These audits are reflected in each year's totals. The actual number of audits performed was 236.

Under "Stages of Recovery" a particular recovery is shown only in its latest stage. For example, a recovery will not be shown in the "Notification Letter Issued" stage even though it has been through that stage as long as it has progressed to the subsequent stage.