

Attachment II
Universal Service Administrative Company (USAC) Comments
dated June 6, 2014 concerning Show Low Audit Report

Finding 1 Record Retention

USAC Management Response:

The Beneficiary's document retention policy does not meet FCC's record retention requirements for all types of records, which ensures compliance with FCC's 47 C.F.R. Part 54.516(a)(1). In addition, the District could not locate copies of their October 2008 NSLP data, which was used in their application process. The Beneficiary also did not maintain the underlying data that agreed to NSLP student counts (October 2008) used on Form 471, P2_SL09-10, for Show Low High School and White Mountain Institute for the month requested. However, they did have November 2008 and provided the underlying data for Show Low High School and White Mountain Institute for the next month (November 2008). The November 2008 data substantiated the discount requested. The Beneficiary understands the finding and agrees to comply with the recommendations. Going forward the Beneficiary should familiarize itself with the FCC's Fifth Report and Order, which clarified the Commission's record keeping requirements. The applicant should also refer to USAC's website, for Schools and Libraries (E-rate), select "Reference Area" and then select "Document Retention," for further guidance on these requirements. USAC Management concurs with the finding, effect and recommendation. Recovery is not warranted as the auditors were able to obtain the necessary documentation to perform the audit.

Finding 2 Discount Rate Support

USAC Management Response

USAC concurs with the finding and agrees that the discount rate should be adjusted consistent with the auditor's finding. The FRN discount will be adjusted to 76% of the requested amount and USAC will determine the recovery amount. Going forward, the Beneficiary should familiarize itself with the FCC Form 471 Instructions in calculating the discount percent when completing the FCC Form 471. The Beneficiary can find additional guidance on USAC's website.

Finding 3 Service Provider Over-Billing

USAC Management Response:

The Service Provider submitted FCC Form 474, invoice number 1474589, for charges billed to the Beneficiary on the applicant's bill number 1077223. The invoice to the Beneficiary was later revised by the Service Provider and the total invoice was decreased by \$1,250. The Service Provider did not return the overpaid funds to USAC. On FCC Form 473, the Service Provider Annual Certification Form, Block 2, Item 10, the service provider certifies that the Service Provider Invoices Form (FCC Form 474 or SPI) submitted by the service provider

“contain requests for universal service support for services which have been deemed eligible for universal service support by the fund administrator.” USAC concurs with the finding, and recommendation, however, USAC calculates the recovery as \$1,103.42. USAC used the revised FRN discount percent (76%) to determine the recovery amount. Going forward the service provider should implement a reconciliation process to ensure the correct amount is invoiced to USAC and the applicant.

Finding 4 Cost Allocation

USAC Management Response

The Beneficiary did not perform a cost allocation (eligible portion versus ineligible portion) for ineligible use of servers related to FRNs 1862533 and 1862626. The servers were utilized for the student library Internet, file storage, Internal Web, caching, asset management and email forwarding. Going forward the Beneficiary should consult the Eligible Services List when completing FCC Form 471 for a specific funding year. In addition, a cost allocation should be performed to identify ineligible services and products. The Beneficiary understands the finding and agrees to comply with the recommendation to implement procedures to determine whether any proposed equipment purchases have intended functions, which are ineligible. Going forward the Beneficiary may find additional guidance on USAC’s website on performing cost allocations and eligible services. USAC management concurs with the finding, effect and recommendation and will seek recovery of \$30,393.00