



Schools & Libraries Committee

Briefing Book

Monday, July 24, 2017

10:00 a.m. – 12:00 p.m. Eastern Time

Universal Service Administrative Co.

700 12th Street, N.W., Suite 900

Washington, D.C. 20005

**Universal Service Administrative Company
Schools & Libraries Committee Quarterly Meeting
Agenda**

**Monday, July 24, 2017
10:00 a.m. – 12:00 p.m. Eastern Time
USAC Offices
700 12th Street, N.W., Suite 900
Washington, D.C. 20005**

- OPEN SESSION**
- a1.** Consent Items (each available for discussion upon request):
 - A.** Approval of Schools and Libraries Committee Meeting Minutes of April 24, 2017, May 11, 2017, May 18, 2017, and June 26, 2017.
 - B.** Approval of moving all *Executive Session* items into *Executive Session*.
 - a2.** Approval of Schools and Libraries Support Mechanism 4th Quarter 2017 Programmatic Budget and Demand Projection for the August 2, 2017 FCC Filing.
 - i1.** Information on 15 USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports – *Executive Session Option*.
 - i2.** Schools and Libraries Support Mechanism Business Update.

- EXECUTIVE SESSION**
- i2.** Schools and Libraries Support Mechanism Business Update (Continued) – **Confidential** – *Executive Session Recommended*.
 - a3.** Approval of Revised 2017 Annual Schools and Libraries Support Mechanism Budget – **Confidential** – *Executive Session Recommended*.

Next Scheduled USAC Schools & Libraries Committee Meeting

**Monday, October 23, 2017
10:00 a.m. – 12:00 p.m. Eastern Time
USAC Offices, Washington, D.C.**

**Universal Service Administrative Company
Schools & Libraries Committee Meeting**

ACTION ITEM

Consent Items

Action Requested

The Schools & Libraries Committee (Committee) is requested to approve the consent items listed below.

Discussion

The Committee is requested to approve the following items using the consent resolutions below:

- A. Approval of Committee meeting minutes of April 24, 2017, May 11, 2017, May 18, 2017 and June 26, 2017 (*see Attachments A-1 through A-4*).
- B. Approval for discussing in *Executive Session* agenda items:
 - (1) **i2** – Schools and Libraries Support Mechanism Business Update (Continued). USAC management recommends that discussion of this item be conducted in *Executive Session* because the item relates to USAC’s *procurement strategy and contract administration*.
 - (2) **a3** – Approval of Revised 2017 Annual Schools and Libraries Support Mechanism Programmatic Budget. USAC management recommends that discussion of this item be conducted in *Executive Session* because the item relates to USAC’s *procurement strategy and contract administration*.

Upon request of a Committee member any one or more of the above items are available for discussion by the Committee.

Recommended USAC Schools & Libraries Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Schools & Libraries Committee hereby approves the Committee meeting minutes of April 24, 2017, May 11, 2017, May 18, 2017 and June 26, 2017 and discussion in *Executive Session* of the item noted above.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

SCHOOLS & LIBRARIES COMMITTEE MEETING
Monday, April 24, 2017

(DRAFT) MINUTES

The quarterly meeting of the USAC Board of Directors (Board) Schools & Libraries Committee (Committee) was held at USAC's offices in Washington, D.C. on Monday, April 24, 2017. Dr. Dan Domenech, Committee Chair, called the meeting to order at 10:03 a.m. Eastern Time, with eight of the nine Committee members present:

Bocher, Bob	Henderson, Chris – CEO
Buzacott, Alan	Hernandez, Dr. Mike
Choroser, Beth	Mason, Ken – Vice Chair
Domenech, Dr. Dan – Chair	Talbott, Dr. Brian

Members of the Committee not present:

Fontana, Brent

Other Board members and officers of the corporation present:

Brisé, Ronald – Member of the Board
Davis, Craig – Vice President of Schools & Libraries
Feiss, Geoff – Member of the Board
Garber, Michelle – Vice President of Lifeline
Gerst, Matthew – Member of the Board
Gillan, Joe – Member of the Board – *by telephone*
Hays, Kate – Vice President of Stakeholder Engagement
Jacobs, Ellis – Member of the Board
Kinser, Cynthia – Member of the Board
Lee, Karen – Vice President of Rural Health Care
Lubin, Joel – Member of the Board
Poulin, Chera – Vice President of People, Culture and Change
Robinson, Vickie – Vice President, General Counsel and Assistant Secretary
Salvator, Charles – Vice President of Finance, Chief Financial Officer and
Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Shah, Hemang – Vice President of Strategy and Change Management
Sweeney, Mark – Chief Operating Officer

Taylor, Peter – Vice President of Information Technology and Chief Information Officer

Tinic, Atilla – Member of the Board

Wein, Olivia – Member of the Board

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Anderson, Latoya	USAC
Ayer, Catriona	USAC
Bethel, Tameca	USAC
Bullock, Keesha	USAC
Butler, Stephen	USAC
Carpenter, Nikki-Blair	USAC
Delmar, Teleshia	USAC
Diephouse, Greg	USAC
Jones, Frank	Solix, Inc.
Kaplan, Peter	Funds for Learning
King, Lauren	USAC
Lear, Kathleen	Maximus
Lee, Brandon	USAC
Manns, Bernie	USAC
Mattey, Carol	Mattey Consulting
McCornac, Carolyn	USAC
Noriega, Raquel	AT&T
Nuzzo, Patsy	USAC
Sanchez, Sussett	USAC
Schrieber, Johnnay	USAC
Sequin, Eric	Solix
Smith, Chris	USAC
Stankhaus, Paul	CSM
Veith, Lisa	Maximus
Voth, Cara	FCC

OPEN SESSION

a1. Consent Items. Dr. Domenech introduced this item to the Committee.

A. Committee meeting minutes of January 30, 2017.

B. Approval for discussing in *Executive Session* agenda items:

(1) **i3** – Update on EPC Path Forward. USAC management recommends that discussion of this item be conducted in *Executive Session* because

the item relates to USAC's *procurement strategy and contract administration*.

- (2) **i4** – Update on Path Forward – Procurements. USAC management recommends that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.
- C. Routine procurements, deemed consideration and approval of in Executive Session: None.
- D. Approval of Schools and Libraries Support Mechanism 3rd Quarter 2017 Programmatic Budget and Demand Projection for the May 2, 2017 FCC Filing.

The Committee is requested to approve the 3rd Quarter 2017 (3Q2017) programmatic budget and demand projection for the Schools and Libraries Support Mechanism for submission to the FCC in USAC's May 2, 2017 quarterly filing.

On a motion duly made and seconded, and after discussion, the Board adopted the following resolutions:

RESOLVED, that the USAC Schools & Libraries Committee hereby approves the Committee meeting minutes of January 30, 2017 and discussion in *Executive Session* of the items noted above; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee approves a 3rd Quarter 2017 programmatic operating budget for the Schools and Libraries Support Mechanism of \$17.00 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee directs USAC staff to submit a collection requirement of \$17.00 million for Schools and Libraries Support Mechanism administrative costs in the required May 2, 2017 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee, having reviewed at its meeting on April 24, 2017 a summary of the 3rd Quarter 2017 Schools and Libraries Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required May 2, 2017 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the variance is equal to or less than \$10 million, or may seek approval from the Schools and Libraries Committee

Chair to make adjustments if the variance is greater than \$10 million, but not more than \$15 million.

- i1. Information on 12 USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Chris Smith, Senior Manager of Internal Audit, presented this item to the Committee for discussion.
- i2. Support Mechanism Business Update.** Mr. Davis presented this item for discussion.
 - Business Review.
 - Operational Metrics.
 - Update on Key Initiatives.

At 11:02 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

- i3. Update on EPC Path Forward.** Mr. Davis presented this item to the Committee for discussion.
- i4. Update on Path Forward - Procurements.** Mr. Davis presented this item to the Committee for discussion.

At 11:59 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Domenech reported that in *Executive Session*, the Committee discussed items i3 and i4. On a motion duly made and seconded, the Committee adjourned at 12:00 p.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005**

**SCHOOLS & LIBRARIES COMMITTEE MEETING
Thursday, May 11, 2017**

(DRAFT) MINUTES

A meeting of the USAC Board of Directors (Board) Schools & Libraries Committee (Committee) was held at USAC's offices in Washington, D.C. on Thursday, May 11, 2017. Dr. Dan Domenech, Chair, called the meeting to order at 1:01 p.m. Eastern Time, with seven of the nine Committee members present:

Bocher, Bob – *by telephone*
Buzacott, Alan – *by telephone*
Choroser, Beth – *by telephone*
Domenech, Dr. Dan – Chair – *by telephone*
Hernandez, Dr. Mike – *by telephone*
Robinson, Vickie – Acting, General Counsel and Assistant Secretary
Talbot, Dr. Brian – *by telephone*

Mr. Ken Mason joined the call at 1:06 p.m. Eastern Time. He participated in the discussion and voted on item 11.

Members of the Committee not present:

Fontana, Brent

Other Board members and officers of the corporation present:

Davis, Craig – Vice President of Schools & Libraries
Feiss, Geoff – Member of the Board
Garber, Michelle – Vice President of Lifeline
Hays, Kate – Vice President of Stakeholder Engagement
Kinser, Cynthia – Member of the Board
Lee, Karen – Vice President of Rural Health Care
Lubin, Joel – Member of the Board
Poulin, Chera – Vice President of People, Culture and Change
Salvator, Charles – Vice President of Finance and Chief Financial Officer and Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Shah, Hemang – Vice President of Strategy and Change Management

Sweeney, Mark – Chief Operating Officer

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Diephouse, Greg	USAC
King, Lauren	USAC
Lee, Brandon	USAC
Nuzzo, Patsy	USAC
Schrieber, Johnnay	USAC

OPEN SESSION

- i1. Review of Plan to Improve Administration of the E-rate Program.** Ms. Robinson recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration and is subject to attorney-client privilege.*

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

RESOLVED, that the USAC Schools & Libraries Committee hereby approves the Committee discussing this item in *Executive Session*.

At 1:02 p.m. Eastern Time the Committee moved into *Executive Session* for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

- i1. Review of Plan to Improve Administration of the E-rate Program.** Mr. Davis presented this item to the Committee for discussion.

At 1:43 p.m. Eastern Time, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Domenech reported that in *Executive Session*, the Committee discussed item i1. On a motion duly made and seconded, the Committee adjourned at 1:44 p.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

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SCHOOLS & LIBRARIES COMMITTEE MEETING
Thursday, May 18, 2017

(DRAFT) MINUTES

A meeting of the USAC Board of Directors (Board) Schools & Libraries Committee (Committee) was held at USAC's offices in Washington, D.C. on Thursday, May 18, 2017. Mr. Ken Mason, Vice Chair, called the meeting to order at 3:02 p.m. Eastern Time, with six of the nine Committee members present:

Bocher, Bob – *by telephone*
Buzacott, Alan – *by telephone*
Choroser, Beth – *by telephone*
Mason, Ken – Vice Chair – *by telephone*
Robinson, Vickie – Acting CEO, General Counsel and Assistant Secretary
Talbot, Dr. Brian – *by telephone*

Members of the Committee not present:

Domenech, Dr. Dan – Chair
Fontana, Brent
Hernandez, Dr. Mike

Other Board members and officers of the corporation present:

Davis, Craig – Vice President of Schools & Libraries
Feiss, Geoff – Member of the Board
Gillan, Joe – Member of the Board
Kinser, Cynthia – Member of the Board
Lubin, Joel – Member of the Board
Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer
Sweeney, Mark – Chief Operating Officer

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
King, Lauren	USAC
Nuzzo, Patsy	USAC

OPEN SESSION

- a1. Approval of Schools and Libraries Support Mechanism Revised 3rd Quarter 2017 Demand Projection.** Mr. Davis presented this item for consideration.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

RESOLVED, that the USAC Schools and Libraries Committee, having reviewed at its meeting on May 18, 2017 a revised summary of the 3rd Quarter 2017 Schools and Libraries Support Mechanism demand, hereby directs USAC staff to proceed with the required filing to the FCC on behalf of the Committee.

On a motion duly made and seconded, the Committee adjourned at 3:44 p.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

SCHOOLS & LIBRARIES COMMITTEE MEETING
Monday, June 26, 2017

(DRAFT) MINUTES

A meeting of the USAC Board of Directors (Board) Schools & Libraries Committee (Committee) was held at USAC's offices in Washington, D.C. on Monday, June 26, 2017. Dr. Dan Domenech, Committee Chair, called the meeting to order at 3:02 p.m. Eastern Time, with eight of the nine Committee members present:

Bocher, Bob – *by telephone*
Buzacott, Alan – *by telephone*
Domenech, Dr. Dan – Chair – *by telephone*
Fontana, Brent – *by telephone*
Hernandez, Dr. Mike – *by telephone*
Mason, Ken – Vice Chair – *by telephone*
Robinson, Vickie – Acting CEO, General Counsel and Assistant Secretary
Talbot, Dr. Brian – *by telephone*

Members of the Committee not present:

Choroser, Beth

Other Board members and officers of the corporation present:

Davis, Craig – Vice President of Schools & Libraries
Feiss, Geoff – Member of the Board
Gillan, Joe – Member of the Board
Kinser, Cynthia – Member of the Board
Lubin, Joel – Member of the Board
Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer
Shah, Hemang – Vice President of Strategy and Change
Sweeney, Mark – Chief Operating Officer
Taylor, Pete – Vice President of Information Technology and Chief Information Officer
Tinic, Atilla – Member of the Board

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Diephouse, Greg – <i>by telephone</i>	USAC
King, Lauren	USAC
Nuzzo, Patsy	USAC
Zielaski, Daniel	USAC

OPEN SESSION

- a1. Consideration of E-rate Productivity Center (EPC)-Related ITG Noncompetitive Contract Extensions.** Ms. Robinson recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration*.
- i1. Update on COMADs.** Ms. Robinson recommended this matter be discussed in *Executive Session* it relates to USAC’s *internal rules and procedures* concerning the administration of universal service support mechanisms. Discussion of this matter in open session would result in *disclosure of confidential techniques and procedures* that would compromise program integrity.
- i2. Update on Request for Information.** Ms. Robinson recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration*.

At 3:04 p.m. Eastern Time, upon a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential items listed above.

EXECUTIVE SESSION

- a1. Consideration of E-rate Productivity Center (EPC)-Related ITG Noncompetitive Contract Extensions.** Mr. Davis presented this item for consideration.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

RESOLVED, that the USAC Schools and Libraries Committee, having reviewed the recommendation of USAC management, hereby authorizes USAC management to execute noncompetitively awarded contract amendments with ITG to complete post-commitment software development and continue Operations and Maintenance support for EPC in an aggregate amount not to exceed \$4.9 million, plus applicable taxes.

- i1. Update on COMADs.** Mr. Davis presented this time for discussion.
- i2. Update on Request for Information.** Mr. Davis presented this time for discussion.

At 3:34 p.m. Eastern Time, upon a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Domenech reported that in *Executive Session*, the Committee took action on item a1 and discussed items i1 and i2. On a motion duly made and seconded, the Board adjourned at 3:35 p.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

**Universal Service Administrative Company
Schools and Libraries Committee Meeting**

ACTION ITEM

**Approval of Schools and Libraries Support Mechanism
4th Quarter 2017 Programmatic Budget and
Demand Projection for the August 2, 2017 FCC Filing**

Action Requested

The USAC Board of Directors Schools and Libraries Committee (Committee) is requested to approve the 4th Quarter 2017 (4Q2017) programmatic budget and demand projection for the Schools and Libraries (SL) Support Mechanism for submission to the FCC in USAC's August 2, 2017 quarterly filing.

Discussion

4Q2017 Operating Budget

The budget before the Committee includes the costs of administering the SL Support Mechanism and an allocation of USAC common costs. As set forth in FCC rules and USAC's By-laws, each programmatic committee has authority over its programmatic budget.¹ The USAC Board of Directors has responsibility for the USAC common budget and for the overall consolidated budget.

The Committee is requested to approve \$16.65 million for SL Support Mechanism programmatic activities in 4Q2017, which includes:

- \$2.17 million for compensation and benefits for 53 full time equivalents (FTEs) (including the dedicated IT and Data support teams).
- \$9.50 million for the Schools and Libraries Program operations support contract with Solix.
- \$3.17 million in IT operations and maintenance support and contract labor.
- \$0.98 million for beneficiary compliance audits under the Beneficiary and Contributor Audit Program (BCAP).
- \$0.83 million for travel and miscellaneous administrative and outreach functions.

Attachment A to this issue paper provides the details and compares the 4Q2017 SL Support Mechanism budget to 4th Quarter 2016 (4Q2016) actual expenditures.

The details to support the 4Q2017 allocation of USAC common costs to the SL Support Mechanism are included with the Board budget materials under item aBOD03 072517.

¹ 47 C.F.R. § 54.705(c); By-Laws of Universal Service Administrative Company, Article II, § 8.

Attachment B, will provide a comparison of the SL Support Mechanism budget to actual expenditures for the 6 months ending June 30, 2017. Explanations will be provided for significant variances.

4Q2017 Capital Budget

USAC management anticipates direct capital expenditures attributable to the SL Support Mechanism of \$0.17 million during 4Q2017 for E-Rate Productivity Center (EPC) software development. Information on allocated capital expenditures, which are not attributable to a specific division, is provided under item aBOD03 072517.

Collection Requirement

Funds collected but not expended in the 1st and 2nd quarters of 2017 for the Schools and Libraries Program will reduce the amount to be collected in 4Q2017. The resulting collection requirement for 4Q2017 combined administrative expenses and capital costs is \$9.63 million (\$16.82 million budget less \$7.19 million in unused dollars carried forward) as set forth below.

4th Quarter 2017 Administrative Expenses – Collection Requirement (in millions)

	Direct Operating Costs	Direct Capital Costs	Total
4Q2017 Administrative Expenses	\$16.65	\$0.17	\$16.82
Unused Dollars Carried Forward to Fund 4Q2017	(5.18)	(2.01)	(7.19)
Collection Requirement	\$11.47	(1.84)	\$9.63

Summary of Demand

On a quarterly basis, USAC is required to submit to the FCC projected demand for the upcoming quarter and estimates of unused funds from prior funding years (FYs).² This report provides information on the SL Support Mechanism for the period ending June 30, 2017, and seeks approval of funding requirements for 4Q2017.

On December 19, 2014, the FCC released the *Second E-Rate Modernization Report and Order*, adjusting the E-rate cap to provide certainty of sufficient available funding to achieve program goals.³ The \$2.410 billion annual cap was adjusted to \$3.900 billion.⁴ The new cap included the original \$2.250 billion plus the previous inflation amount of

² 47 C.F.R. § 54.507(a).

³ See *Modernizing the E-rate Program for Schools and Libraries et al.*, WC Docket No. 13-184 et al., Second Report and Order and Order on Reconsideration, 29 FCC Rcd 15538 (2014) (*Second E-Rate Modernization Report and Order*).

⁴ See *id.*

\$163.82 million. This change became effective starting in Funding Year 2015. On May 6, 2016, the FCC announced the funding cap for Funding Year 2016 as \$3.939 billion. The Funding Year 2016 cap reflected a one percent inflation-adjusted increase in the \$3.9 billion cap from Funding Year 2015. On March 13, 2017, the FCC announced the funding cap for Funding Year 2017 as \$3.99 billion.⁵ This reflects a 1.3 percent inflation-adjusted increase in the \$3.939 billion cap from funding year 2016.⁶

Base Demand

The filing window for Funding Year 2017 closed on May 11, 2017. At this time, we estimate demand for Funding Year 2017 will be \$3.147 million.

Net Demand for Collections Purposes

Based on the estimated demand of \$3,146.53 million, and sufficient funds available for carry forward that can be allocated to Funding Year 2017, the funding year collection requirement is \$1,946.29 million. The 3Q2017 collection of \$486.57 million reduces the collection requirement to \$1,459.72 million. The 4Q2017 portion of the collection requirement is \$486.57 million and will be included as net demand in the 4Q2017 demand filing.

Prior Period Adjustments

Sixty days prior to the start of each quarter, USAC provides projected support mechanism demand and administrative expense data to the FCC. Thirty days prior to the start of the quarter, USAC submits projected universal service contributor revenue data to the FCC. The FCC uses these projections to establish the universal service contribution factor for the upcoming quarter, and USAC uses the resulting contribution factor to invoice universal service contributors once the quarter begins.

Results for 2Q2017 contribute to an under-funded condition for which this filing proposes to adjust the 4Q2017 requirements. The total adjustment to the 4Q2017 fund requirement based on actual results will increase the funding needed by \$5.77 million. The explanation for the adjustment is provided below:

⁵ See *Wireline Competition Bureau Announces E-rate Inflation-Based Cap for Funding Year 2017*, CC Docket No. 02-6, Public Notice, 2017 WL 999235 (2017).

⁶ See *Wireline Competition Bureau Announces E-rate Inflation-based Cap for Funding Year 2016*, CC Docket No. 02-6, Public Notice, 31 FCC Rcd. 4446 (2016).

Reason for the Prior Period Adjustment	Adjustment in Millions
2Q2017 billings were lower than projected	\$10.37
Interest earned was higher than projected	(0.74)
Bad debt expense was lower than anticipated	(3.86)
Total Prior Period Adjustment	\$5.77

The net demand of \$486.57 million is adjusted as follows: increased for administrative expenses of \$17.46 million (including allocated administrative expenses of \$7.83 million⁷), increased by the prior period adjustments of \$5.77 million, and reduced by projected interest income of \$10.33 million; resulting in a total projected 4Q2017 funding requirement for the SL Support Mechanism of \$499.47 million.

**Schools and Libraries Support Mechanism
Fund Size Projections for 4th Quarter 2017**

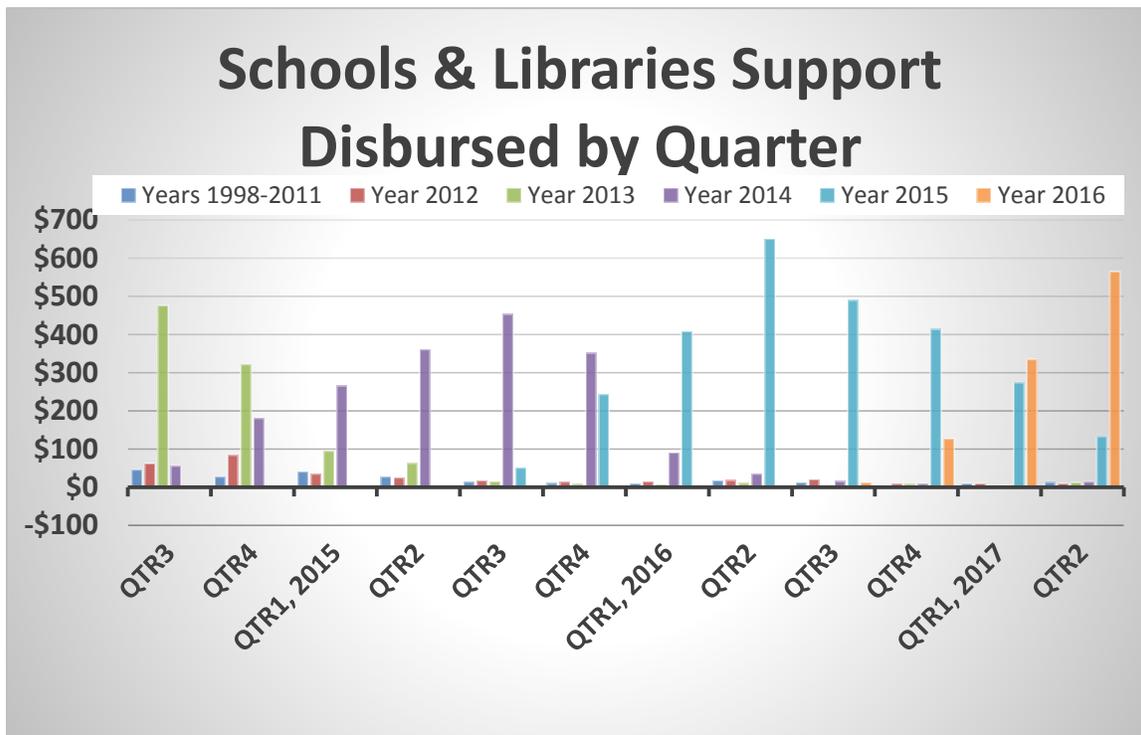
	(millions)
Schools and Libraries Support	\$486.57
Prior Period Adjustment	5.77
Administrative Expenses	17.46
Interest Income	(10.33)
Total 4Q2017 Demand	\$499.47

**Quarter-Over-Quarter Projections
(in millions)**

	4Q2017	3Q2017	2Q2017	1Q2017
Schools and Libraries Support	\$486.57	\$486.57	\$380.03	\$380.03
Prior Period Adjustment	5.77	(6.08)	(1.93)	(10.58)
Administrative Expenses	17.46	27.72	34.70	41.50
Interest Income	(10.33)	(10.12)	(10.56)	(10.08)
Total Demand	\$499.47	\$498.09	\$402.24	\$400.87

⁷ This amount includes 4th Quarter allocated common costs of \$11.73 million, reduced by allocated common costs of \$3.90 million collected but unused in prior quarters.

Schools and Libraries Support Mechanism Summary



Management Recommendation

USAC management recommends the Committee approve the budget and collection requirement as proposed.

Recommended USAC Schools and Libraries Committee Action

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC Schools and Libraries Committee approves a 4th Quarter 2017 programmatic operating budget for the Schools and Libraries Support Mechanism of \$16.65 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee approves a 4th Quarter 2017 programmatic capital budget for the Schools and Libraries Support Mechanism of \$0.17 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee directs USAC staff to submit a collection requirement of \$9.63 million for Schools and Libraries Support Mechanism administrative costs in the required August 2, 2017 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee, having reviewed at its meeting on July 24, 2017 a summary of the 4th Quarter 2017 Schools and Libraries Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required August 2, 2017 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the variance is equal to or less than \$10 million, or may seek approval from the Schools and Libraries Committee Chair to make adjustments if the variance is greater than \$10 million, but not more than \$15 million.

Schools and Libraries Program

4Q2017 Budget
(in thousands)

ACTION Item #aSL02

Attachment A

07/24/17

1 of 1

Expense Category	4Q2017 Budget	4Q2016 Actuals	Increase/ (Decrease)	Explanations
Compensation & Benefits	\$ 2,165.30	\$ 2,334.40	\$ (169.10)	Wages, employment benefits, and payroll taxes for 53 FTEs (vs 53 in 2016).
Solix Costs	9,500.00	9,484.76	15.24	Program operations and customer support
External BCAP Costs	978.73	1,243.90	(265.17)	Beneficiary compliance audits
Professional Fees	3,170.54	3,674.53	(503.99)	Lower costs for IT contract labor and professional fees related to E-rate Productivity Center (EPC) operations and maintenance costs.
Telephone & Computer Support	481.54	470.39	11.15	Computer support maintenance agreements and licensing
Travel, Meetings and Conferences	310.83	450.80	(139.97)	Less applicant training and travel planned in 4Q2017
Other Expenses	40.88	11.75	29.14	Personnel expenses and training materials for outreach activities (higher costs for training and education in 2017)
Total Programmatic Operating Costs	\$ 16,647.82	\$ 17,670.53	\$ (1,022.70)	
Direct Capital Costs	173.52	\$1,325.96	(1,152.44)	Business process management system development (EPC)
Total Direct Costs - Schools & Libraries Program	\$ 16,821.34	\$ 18,996.49	\$ (2,175.15)	
Common Operating Costs Assigned to Schools & Libraries Program	11,280.08	10,599.00	681.08	Allocation of indirect operating costs based on the CAM
Common Capital Costs Assigned to Schools & Libraries Program	452.73	556.25	(103.52)	Allocation of indirect common capital budget based on the CAM
Total Common Costs Assigned to Schools & Libraries Program	\$ 11,732.81	\$ 11,155.25	\$ 577.56	
Total Schools & Libraries Program with Allocations	\$ 28,554.15	\$ 30,151.74	\$ (1,597.59)	

Schools and Libraries Program
For the Six Months Ending June 30, 2017
(in thousands)

ACTION Item #aSL02
Attachment B
07/24/17
1 of 1

Direct Operating Expenses	Actual	Budget	Variance	%	Explanation of Variance
Compensation & Benefits	\$ 3,814.5	\$ 3,501.6	\$ (312.9)	-9%	
Solix Costs	\$ 18,750.0	\$ 21,100.0	\$ 2,350.0	11%	No contingency spending
External BCAP Costs	\$ 1,457.4	\$ 2,164.6	\$ 707.2	33%	Lower spending on outsourced audits
Professional Fees & Contract Labor	\$ 6,142.8	\$ 8,878.0	\$ 2,735.2	31%	Less spending on EPC O&M (\$1.2M) and SL business model redesign (\$1.5M) year to date
Telephone & Computer Support	\$ 857.0	\$ 1,188.3	\$ 331.3	28%	Lower spending on cloud hosting year to date
Travel, Meetings and Conferences	\$ 136.5	\$ 315.1	\$ 178.6	57%	Lower spending on user experience trainings and program travel
Other Expenses	\$ 12.4	\$ 44.9	\$ 32.5	72%	Lower spending on printing and training
Total Direct Operating Expenses	\$ 31,170.6	\$ 37,192.5	\$ 6,021.9	16%	
Indirect Expense / Allocations					
USAC Administration	21,274.2	22,028.2	754.0	3%	
Total Expense	52,444.8	59,220.7	6,775.9	11%	

**Universal Service Administrative Company
Schools & Libraries Committee Meeting**

INFORMATION ITEM – *Executive Session Option*

**Information on 15 USAC Internal Audit Division
Schools and Libraries Support Mechanism Beneficiary Audit Reports**

Information Presented

This information item provides a summary of the results for 15 Schools and Libraries Support Mechanism Beneficiary Audit Reports listed in **Exhibit I** to this briefing paper.

Discussion

A general discussion of the findings contained in the draft audit reports is appropriately held in open session. To the extent that Committee members wish to discuss specific details of the audit findings, USAC staff recommends that, in accordance with the approved criteria and procedures for conducting USAC Board of Directors (Board) and committee business in *Executive Session*, this matter should be considered in *Executive Session* because discussion of specific audit plans, targets and/or techniques would constitute a *discussion of internal rules and procedures*.

Audits were performed on 15 Schools and Libraries Support Mechanism beneficiaries. The purpose of the audits was to determine whether the beneficiaries complied with FCC rules and program requirements. **Exhibit I** to this briefing paper highlights the results of the audits. The audit report where the entity disagreed with one or more audit findings can be found in **Attachment A**.

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
West Virginia State Department of Education, West Virginia	0	<ul style="list-style-type: none"> No Findings. 	\$3,525,061	\$0	\$0	N/A
Colton Joint Unified School District, California	1	<ul style="list-style-type: none"> Inaccurate Fixed Asset List. The Beneficiary was initially unable to locate eight E-rate assets for our inspection; in addition, its fixed asset system contained errors and did not consistently include support for the assets' current location. 	\$2,859,712	\$11,560	\$0	N
Cumberland County School District, North Carolina	1	<ul style="list-style-type: none"> No Material Findings. 	\$2,330,895	\$1,597	\$1,597	N
Rialto Unified School District, California	1	<ul style="list-style-type: none"> No Material Findings. 	\$866,150	\$0	\$0	N
A B C Unified School District, California (Attachment A)	1	<ul style="list-style-type: none"> No Material Findings. 	\$1,558,151	\$0	\$0	Y
Hammond City School District,	2	<ul style="list-style-type: none"> Service Provider Over-Invoiced the Schools and 	\$1,824,591	\$71,176	\$42,394	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Indiana		<p>Libraries Program (SLP). The Service Provider did not maintain documentation to support that it had submitted accurate Service Provider Invoices (SPIs) to SLP and invoices to the Beneficiary.</p> <ul style="list-style-type: none"> • Inaccurate Request for Services. The Beneficiary purchased equipment in excess of the quantities requested and approved at three entities under Item 21 of the Beneficiary’s Form 471. 				
Oxnard Union High School District, California	1	<ul style="list-style-type: none"> • Service Provider Over-Invoiced SLP for Ineligible Products and Services. The Service Provider invoiced SLP for ineligible products and services. 	\$119,086	\$1,582	\$1,582	N
Knox County Career Center, Ohio	2	<ul style="list-style-type: none"> • No Material Findings. 	\$34,436	\$2,174	\$2,174	N
Worcester Public School District, Massachusetts	3	<ul style="list-style-type: none"> • Inadequate Category Two Budget Calculation Process - Did Not Include the Proper Student Counts in Calculating 	\$2,696,871	\$15,877	\$15,877	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		<p>the Category Two Budget. The Beneficiary did not exclude Pre-Kindergarten students from its Category Two budget calculation for Chandler Magnet School under FRN 2753895, resulting in the Service Provider over-invoicing SLP for excessive Category Two costs.</p> <ul style="list-style-type: none"> • Beneficiary Over-Invoiced SLP for Ineligible Services and Equipment. The Beneficiary included ineligible charges such as directory listings, directory assistance and recurring voice message services in Billed Entity Applicant Reimbursement (BEAR) requests submitted to the SLP for reimbursement under FRN 2753519. • Beneficiary Over-Invoiced SLP for Ineligible Services and Equipment. The Beneficiary included ineligible charges such as data, text 				

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		messaging and broadband services in BEAR requests submitted to the SLP for reimbursement under FRN 2754977.				
Genesee Valley/Wayne-Finger Lakes Educational Technology Service, New York	5	<ul style="list-style-type: none"> • Beneficiary Over-Invoiced SLP for Services Received for a Different FRN. The Beneficiary invoiced SLP for services related to multiple FRNs under one FRN. • Equipment Not Used at the Requested Location for the Requested Purpose. The Beneficiary did not install four switches and one transceiver module by September 30, 2016. • Beneficiary Over-Invoiced SLP for Ineligible Services and Equipment. The Beneficiary invoiced SLP for ineligible voice services including Direct Inward Dialing, Directory Assistance and Text Messaging. • Beneficiary Over-Invoiced 	\$953,314	\$392,690	\$392,690	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		<p>SLP for Services Delivered to Ineligible Locations. The Beneficiary invoiced SLP for internet access services for a school that was closed early in the Funding Year and no longer used for educational purposes.</p> <ul style="list-style-type: none"> • Beneficiary Over-Invoiced SLP for Services Not Requested. The Beneficiary invoiced SLP for services that were not included in the Form 471 request. 				
West Clark Community Schools, Indiana	2	<ul style="list-style-type: none"> • No Material Findings. 	\$105,488	\$1,603	\$1,581	N
Burlington City School District, New Jersey	3	<ul style="list-style-type: none"> • Competitive Bidding - Beneficiary Did Not Perform the Required Competitive Bidding Procedures. The Beneficiary did not competitively bid the service provider contracts for Internet Access and Telecommunications Services. • Equipment Not Used at the 	\$111,174	\$131,920	\$17,200*	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		<p>Requested Location for the Requested Purpose. Equipment that was procured with E-rate funding for Internal Connections was subsequently determined to not be necessary during the network upgrade installation process, but was retained to be used as spare equipment in the event of equipment failure.</p> <ul style="list-style-type: none"> • Beneficiary Over-Invoiced SLP by Not Deducting Rebates or Free Services from the BEAR Amount. The Beneficiary received pieces of equipment at no cost, but did not reduce the E-rate reimbursement request to reflect the value of free equipment received. 				
San Juan Unified School District, California	1	<ul style="list-style-type: none"> • No Material Findings. 	\$447,041	\$1,951	\$1,951	N
Federal Way School District, Illinois	0	<ul style="list-style-type: none"> • No Findings. 	\$1,112,323	\$0	\$0	N/A
Comcast Business	4	<ul style="list-style-type: none"> • SPI Included Services Not 	\$8,278,198	\$33,942	\$33,942	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Communications, Pennsylvania		<p>Requested for SLP Support. The Service Provider (1) invoiced SLP for services that were not requested on the Item 21 Attachment to four Beneficiaries’ FCC Forms 471; and (2) did not invoice SLP for services that were requested on the Item 21 attachment to one Beneficiary’s FCC Form 471.</p> <ul style="list-style-type: none"> • BEAR Included Ineligible Services and/or Equipment. Amounts claimed for reimbursement included costs for services that were not included in the Eligible Services List. 				
Total	27		\$26,822,491	\$666,072	\$493,788	

* The difference between the Monetary Effect and the USAC Management Recovery Action resulted in a commitment adjustment to the related FRN.

Attachment A

SL2016BE026

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

A B C UNIFIED SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT No. SL2016BE026



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CRITERIA6



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
A B C UNIFIED SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

March 22, 2017

Mr. Wayne Scott, Vice President – Internal Audit Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Mr. Scott:

Cotton & Company LLP (referred to as “we”) audited the compliance of A B C Unified School District (Beneficiary), Billed Entity Number (BEN) 143519, using regulations and orders governing the federal Universal Service Schools and Libraries Program (SLP), set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary’s compliance with the Rules based on the audit.

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding and no other matters, discussed in the Audit Results and Commitment Adjustment/Recovery Action section below. For the purpose of this report, a “detailed audit finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period. An “other

matter” is a condition that does not necessarily constitute a violation of the Rules but that warrants the attention of the Beneficiary’s and USAC’s management.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and accepted responsibility for ensuring that those procedures are sufficient for their purposes. This report is not confidential and may be released to a third party upon request.

Audit Results and Commitment Adjustment/Recovery Action

Based on the test work performed, our examination disclosed that the Beneficiary did not comply with the Rules, as set forth in the detailed audit finding discussed below.

Audit Results	Monetary Effect	USAC Recovery Action	Recommended Commitment Adjustment
<p>Finding No. 1, FCC Form 471 Instructions, Inaccurate Request for Services. The Beneficiary submitted an erroneous FCC Form 471 for internal connections equipment.</p>	\$0	\$0	\$0

USAC Management Response

USAC concurs with the Audit Results stated above. USAC recommends the Beneficiary implement controls and procedures to ensure that it performs an adequate review of its FCC Form 471 and Item 21 submissions to verify the accuracy of its funding requests. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified. Additionally, USAC directs the Beneficiary to USAC’s website under “Reference Area” for additional guidance on FCC Form 471 filing.

USAC also recommends the Beneficiary subscribe to USAC’s weekly News Brief which provides program participants with valuable information. Enrollment can be made through USAC’s website under “Trainings and Outreach” available at (<http://www.usac.org/sl/tools/news-briefs/Default.aspx>).

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2015. The Beneficiary is a school district located in Cerritos, California that serves more than 21,200 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of May 31, 2016, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$1,244,020	\$1,232,995
Internet Access	\$33,920	\$25,440
Telecommunications	\$453,896	\$283,741
Voice	\$101,052	\$15,975
Total	<u>\$1,832,888</u>	<u>\$1,558,151</u>

The “amount committed” total represents 2 FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2015 that resulted in 34 Funding Request Numbers (FRNs). We selected a sample of eight of the 34 FRNs, which represent \$1,087,440 of the funds committed and \$840,941 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

A. Application Process

We obtained an understanding of the Beneficiary’s processes relating to the SLP. Specifically, to determine if the Beneficiary used its funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary is using its funding effectively and whether it has adequate controls in place. We performed inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentages and validated the accuracy of the discount percentages.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) primarily considered the price of the eligible services and goods in selecting the service provider. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 *Description of Services Requested and Certification* was posted on USAC’s website before signing contracts with the selected service providers. In addition, we evaluated the cost-effectiveness of the equipment and services requested and purchased.

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 474, *Service Provider Invoices (SPIs)*, and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Site Visit

We performed a physical inventory to evaluate the location and use of equipment and services to determine whether they were properly delivered and installed, located in eligible facilities, and used in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which it had requested funding and evaluated the equipment and services purchased to determine whether the Beneficiary was using its funding in an effective manner.

E. Reimbursement Process

We obtained and examined equipment and service invoices that the Beneficiary submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed invoices associated with the SPI forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the SPI forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and were eligible in accordance with the SLP Eligible Services List.

Detailed Audit Finding

Finding No. 1, FCC Form 471 Instructions- Inaccurate Request for Services

Condition

The Beneficiary submitted a FCC Form 471 for internal connections equipment with errors in the amount and cost of equipment and services that was requested. The description in Item 21 of FCC Form 471 Application No. 1002355 included inaccurate prices for several products. In addition, the Beneficiary misstated the quantities for several other products, although it recorded the prices accurately, and USAC was invoiced correctly on subsequent SPIs. The following table details the errors (highlighted in red) that we identified on the Beneficiary's FCC Form 471 for sampled internal connections FRNs:

FRN	Product	Contract Quantity	Form 471 Quantity	Contract Price	Form 471 Price
2784077	RUC-9090150ZD00	1	18	\$1,666.67	\$321.43
2784077	RUC-901R500US00	18	18	\$8,127.00	\$1,666.67
2784077	RUC-90201080000	18	18	\$630.00	\$8,127.00
2784091	RUC-9090150ZD00	1	21	\$1,944.44	\$375.00
2784091	RUC-901R500US00	21	21	\$9,481.50	\$1,944.44
2784091	RUC-90201080000	21	21	\$735.00	\$9,481.50
2784117	RUC-9090150ZD00	1	9	\$833.33	\$160.71
2784117	RUC-901R500US00	9	9	\$4,063.50	\$833.33
2784117	RUC-90201080000	9	9	\$315.00	\$4,063.50
2784077	WS-C3650-48TD-S	3	1	\$10,716.00	\$10,716.00
2784077	WS-C3650-48PD-S	10	3	\$41,420.00	\$41,420.00
2784077	WS-C3650-48TD-S	14	3	\$50,008.00	\$50,008.00
2784077	GLC-SX-MMD	14	10	\$2,660.00	\$2,660.00
2784077	SCLC-3M-ENC	14	10	\$222.04	\$222.04
2784077	SFP-H10GB-CU1M	16	5	\$608.00	\$608.00
2784077	C6-BK-3-ENC	2	112	\$2.74	\$2.74

Cause

The Beneficiary did not have adequate procedures and controls in place to ensure that it accurately recorded service descriptions and funding amounts requested on its FCC Form 471 applications.

Effect

The Beneficiary misstated the quantity and cost of internal connections equipment on its Funding Year 2015 FCC Form 471 application. While the errors were offset in the initial April 2015 application, the FCC Form 471 was updated in August 2015 to remove several equipment items at an erroneous unit cost, which resulted in a net understatement of requested funding for all internal connections FRNs. After we brought this issue to the Beneficiary's attention, the Beneficiary submitted a service substitution request to USAC on September 7, 2016, to correct the identified errors in equipment cost. Our site visit did not identify any issues with equipment not being in the location for which funding was requested.

Recommendation

We recommend that the Beneficiary strengthen its quality control process for reviewing FCC Form 471 applications prior to submission to USAC, to ensure that it has accurately described the requested services and costs and correctly calculated the requested funding amount.

Beneficiary Response

A B C Unified School District disagrees that this should be a finding within the audit report. Rather the district believes this should be listed as an other matter in the Management

Letter. It is our belief that the error was ministerial and clerical in nature and does not represent a violation of the rules enumerated in the Code of Federal Regulations. We, therefore, request that this issue be moved to the Management Letter.

We also feel it is important to note that the district does have a quality control review process in place to ensure that it has accurately described the requested services and costs and correctly calculated the requested funding amount. The district employs an E-rate consultant and the E-rate consultant has a multi-layer process to review the accuracy of the information contained on the Form 471. The draft Form 471 is then sent to the district for a multi-step quality review process. Unfortunately, the quantities of a few items were incorrectly entered and the error was not caught despite the multiple level of review. We do agree that the dollar amounts for a four out [sic] 134 line items were incorrectly entered, but the aggregate dollar amounts for each FRN were correct. The district does not believe that 2.99% in ministerial [sic] rises to the level of a finding if the errors did not result in the district receiving disbursement in excess of what it was eligible to receive.

*It should also be noted that in FY 2015 the FCC implemented a new Form 471 that drastically impacted the level of effort to complete a Form 471 of this nature. In FY 2014 and prior the district only needed to provide 27 data elements per FRN and also provide a quote in support of the Form 471. In FY 2015 the district needed to data enter 16 data elements to create the FRN and additionally provide 12 data elements for each line item. As stated above there were 134 distinct line items, so a total of 1,656 (3*16+134*12) distinct data elements needed to be data entered in order to complete the three FRNs in question compared to the 81 data elements that would have been required in Funding Year 2014. Obviously, this 2044% increase in the number of data elements required to file for support will drastically increase the opportunity for errors.*

While we agree that a ministerial clerical error did occur it [sic] important to note that USAC did not fulfill its obligation to ensure the accuracy of the information on the application. During the review process USAC requested and was provided complete copies of the relevant quotes. We believe USAC was statutorily obligated to review this information and compare it to the information on the Form 471.

In paragraph 23 of the Bishop Perry Order (FCC 06-54) the FCC directed USAC to “inform applicants promptly in writing of any and all ministerial or clerical errors that are detected in their applications, along with a clear and specific explanation of how the applicant can remedy those errors.” Given that USAC had the relevant supporting documentation in its records before a commitment decision was issued it appears that USAC was obligated to notify the district of this ministerial and clerical error, but USAC failed to do so. Given the volume of data required it is readily apparent how such a minor ministerial error could be missed by USAC, the district, and the district’s E-rate consultant.

Auditor Response

We do not agree that it was USAC’s responsibility to detect the Beneficiary’s clerical errors. The Beneficiary’s current processes do not adequately support its FCC Form 471 certifications.

While the errors that we identified in this audit did not result in the Beneficiary receiving more support than it was entitled to, without changes to its current quality review procedures, there is a likelihood that such errors could occur in the future. For this reason, we consider this issue an audit finding.

Criteria

Finding	Criteria	Description
1	<p>Instructions for Completing the Schools and Libraries Universal Service Services Ordered and Certification, Form (FCC Form 471), OMB 3060-0806, (Oct. 2014).</p>	<p><i>Item 21 – Each Funding Request must include a description of the products and services for which discounts are being sought. Applicants complete one or more line-item entries for all products or services in the funding request for the service type identified in Item 11...</i></p> <ul style="list-style-type: none"> • <i>Complete Item 21b for Internal Connections...</i> <p><i>In all cases, you will be asked for the following information. Additional guidance for completing Items 21a, 21b, 21c, and 21d is provided below.</i></p> <ul style="list-style-type: none"> • <i>Provide a narrative overview or description of the service(s) included in the funding request.</i> • <i>For each product or service sought, use a separate line to describe the products or services. If you have the several of the same product or service but they are delivered at different speeds, use a separate line for each. The system will automatically assign an FRN line item number to track the specific request.</i> • <i>Recipients of Service:</i> <p><i>- For Category Two requests, the system will display the list of entities you entered in Block 4 and will allow you to select all or some of the entities to indicate who is receiving that service....</i></p> <p><i>Note about applicant Category Two Budgets:</i> <i>As you enter funding requests on this application, the system will track the total pre-discount dollars on a per school or library basis and compare that to the Category Two Applicant Budgets displayed in Block 4. If the pre-discount costs featured on the funding requests on this form exceed that amount, you will be notified by the system that some funds may be denied because you appear to have exceeded your Category Two budget. Although applicants can request more than their Category Two Applicant budget, commitments will be capped based on the school or library’s budgeted pre-discount amount. Applicants should also carefully review any other applications they filed, or by other organizations on their behalf, such as consortia, to determine if an individual school or library has exceeded its Category Two budget.</i></p>

Finding	Criteria	Description
1	FCC Form 471 Instructions.	Item 32 – <i>Check this box to certify that you are the person authorized to order telecommunications and other supported services on behalf of the eligible entity(ies) and are authorized to submit and certify to the accuracy of this form.</i>

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Partner
Alexandria, VA

Universal Service Administrative Company Schools & Libraries Committee Meeting

INFORMATION ITEM

Schools and Libraries Support Mechanism Business Update

Information Presented:

This information item provides the Schools & Libraries Committee (Committee) with an update on the Schools and Libraries (SL) Support Mechanism. The update includes a discussion of second quarter 2017 highlights, SL Operations, and progress on completion of the E-rate Productivity Center (EPC).

Discussion:

Program Highlights – 2nd Quarter 2017

- On April 28, 2017, USAC kicked off an open data pilot program using Funding Year (FY) 2016 and FY 2017 FCC Form 471 data and the Socrata Data Platform. External E-rate stakeholders participated in this Pilot Program that provides a new way for accessing and using open data.
- On May 5, 2017, USAC began issuing commitment adjustments upon resolution of a longstanding guidance request concerning USAC's ability to recover funds where the final delivery of service was more than five years old. In so doing, USAC implemented the Federal Communications Commission's (FCC's) *Net56 Order* that clarified that the Commission would not construe its administrative policy for completing investigations within a five year period in a manner that would impair its ability to fulfill statutory requirements to establish and collect debts.¹
- On May 11, 2017, the FY 2017 FCC Form 471 Application Filing window successfully closed. USAC received 40,262 applications requesting funding in the amount of \$3.2 billion.
- On May 24, 2017, the FCC released Public Notice DA 17-507 directing USAC to fully fund all eligible E-rate program requests for FY 2017. The total demand consists of \$2.296 billion for Category one (C1) services and \$904 million for Category two (C2) services.

¹ *Application for Review of a Decision of the Wireline Competition Bureau by Net56, Inc.*, CC Docket No. 02-6, Memorandum Opinion and Order, -- FCC Rcd --, 2017 Westlaw 211539, paras. 9-11 (2017).

- As of June 30, 2017, 97% of the FY 2016 funding applications were processed that included requests totaling \$3.6 billion. Almost 45,000 applications have been processed for \$2.81 billion.
- As of June 30, 2017, 33% of the FY 2017 funding applications were processed that included requests totaling \$312 million. Over 13,400 funding applications have been processed with a balance of less than 27,000 applications totaling \$2.9 billion in requested funding remaining.
- Schools and Libraries Division (SLD) prepared a Request for Information (RFI) to gather data on best practices for performance management, continuous process improvement, and pricing for the future Schools and Libraries Business Process Outsourcing (BPO) procurement.

Improving E-rate Program Administration

SLD continues to focus on improving program administration and increasing decision making velocity. With the help of SLD staff on-site full-time at Solix, application processing productivity increased, and management guidance (technical, procedural, or other) was expedited due to Solix's ability to access SLD staff in real time. The production manager has also allowed for more insight into the routine tasks and challenges encountered by Solix to provide more accurate feedback to USAC. Application review for FY 2017 has shown marked improvement over FY 2016 with greater application counts and dollars approved through the end of second quarter 2017. The most recently available SLD monthly scorecard is attached for further review (see Attachment A).

Operations Improvements

SLD has also focused on supporting the FY 2017 FCC Form 471 application filing window. Significant resources were allocated to ensure that EPC would be able to perform under the expected loads at the close of the filing window. Working in close collaboration with the IT team, SLD continued to test, monitor, and fine tune EPC to ensure the maximum performance. As a result of this effort, there were few reports of system latency and no reports of applicants being unable to timely file their applications due to system limitations.

During the FY 2017 application filing window, the IT team also continued to develop updates for the Program Integrity Assurance (PIA) review system so that SLD could review, approve, and commit FY 2017 applications. Although much of the review system functionality did not change, significant work was required to overcome problems created by designing EPC to work for only a single funding year. The IT team also corrected a number of incorrectly programmed exceptions that were triggering too often, resulting in false positives during PIA review. Further, the IT and SL Operations teams resolved a number of issues that allowed for the automated clearing of certain exceptions to improve the PIA application review process. Both of these efforts reduced the total amount of manual work for the PIA review team. Although the review system for FY

2017 was not deployed until the weekend after the FY 2017 application filing window closed, USAC committed the first wave for 2017 just two weeks later. The size of that wave is evidence that EPC is finally beginning to deliver on its promise of faster and more automated reviews.

The focus during the quarter, however, was not exclusively on FY 2017 and the FCC Form 471 application filing window. SLD also devoted significant resources to resolving FY 2016 applications that were blocked by system issues. Today, less than 5 applications are currently blocked by a technical system issue. Further, SLD ensured that the FCC FY 2018 FCC Form 470 was available on July 1, 2017.

Although EPC is the lynchpin of the SL IT systems, the SL legacy systems continue to support invoicing and the Enterprise Data System (EDS) continues to support reporting, analytics, data warehousing and open data needs. This quarter, SLD integrated EPC, EDS and the invoicing systems to allow applicants and service providers to invoice after receipt of a Revised Funding Commitment Decision Letter (RFCDL), which is issued when SLD approves a SPIN change, service substitution, or an appeal, and updates the commitment amount. This revised commitment information was also integrated with SLD's public website tools. SLD, IT, and the Data Strategy teams are working closely together to ensure that applicants and services providers can invoice for FY 2017 commitments starting July 18, 2017.

Governance and Cost Controls

USAC take its fiscal responsibility very seriously and is acutely aware of the importance of governance and cost control for system development. To implement the enhanced governance structure, SLD is strengthening its project management infrastructure for all E-rate systems and especially its management of systems development and maintenance to stay within budget, manage scope, and meet agreed-upon timelines. To help achieve this end, SLD has designated a single IT owner, Brandon Lee, for all E-rate systems to facilitate seamless integration across the three EPC, EDS, and legacy systems, and create and manage to an integrated master schedule and plan. Additional product management resources will be added to the SLD to ensure there is no schedule slippage from the requirements and testing perspectives. SLD will also adhere to an enterprise-wide policy whereby scope and the associated costs are reviewed and approved by the program Vice President (VP) and USAC Chief Financial Officer (CFO). Any subsequent changes that will impact cost or scope will have to be both quantified and justified by the product owner before obtaining documented approvals from both the program VP and CFO. Any work associated with these changes requiring additional funding will not proceed until such time that the changes are approved by the USAC Board and the FCC as required. As a further effort to improve financial management, the Finance Division established a process to more effectively monitor the EPC annual budget and forecast on a monthly basis. The latest forecast is provided as Attachment B.

USAC SLD has also implemented an executive steering committee to ensure that all activities supporting operations, systems, and improved governance are on track. A

similar meeting is held at a regular cadence to inform our FCC colleagues of progress, and is pivotal in ensuring the appropriate alignment across organizations.

Update on RFI for the BPO

Earlier this month, SLD finalized a Request for Information (RFI) regarding Schools & Libraries Business Process Outsourcing (BPO). The information gathered from the RFI will be used to evaluate the offerings of the current marketplace and will inform the development of a formal Request for Proposal (RFP) for the work conducted by the SLD outsourced vendor. The RFI specifically requests information related to industry trends, best practices, and standard for BPO in the following areas:

- Performance management, including key performance metrics, service level agreements (SLAs), and frameworks for building accountability, transparency, and enabling efficiency;
- Flexible staffing to support a lifecycle that changes focus and volumes throughout the year;
- Management of a processing environment within a regulatory framework dictated by sometimes changing regulations; and
- Continuous improvement through use of aggregate data analysis and process review and automation of manual efforts.

USAC is soliciting information from commercial vendors, application service providers, associated integration service providers, and other interested parties capable of assisting us in meeting our objectives for a more efficient delivery of USAC E-rate funding application reviews and invoice processing management services.

Program Integrity Update

On January 17, 2017, the Commission issued an order clarifying that the Commission would not construe its administrative policy for completing investigations within a five year period in a manner that would impair its ability to fulfill statutory requirements to establish and collect debts.² Following the issuance of this order, SLD worked with Commission staff to initiate recovery for matters that were on hold while waiting for additional guidance from the Commission on this issue. Beginning May 5, 2017, SLD started to issue notifications of commitment adjustments (COMAD) and recovery of improperly disbursed funding (RIDF) to initiate the recovery process for these pending matters.

Funding Application Review Update

For FY 2016, 810 funding applications were processed for \$419 million for the second quarter of 2017. Cumulative FY 2016 applications committed are 44,999 that included

² *Application for Review of a Decision of the Wireline Competition Bureau by Net56, Inc.*, CC Docket No. 02-6, Memorandum Opinion and Order, paras. 9-11 (2017).

funding requests in the amount of \$2.81 billion. As of June 30, 2017, only 26 FY 2016 workable applications were still under review. Due to the cooperation and partnership between the SLD and IT teams, the pace of system fixes increased dramatically during second quarter 2017 allowing funding applications blocked by system issues to be processed and funded. During this timeframe, 47 distinct system issues/defects affecting 297 funding applications valued at \$278 million were resolved. As of June 30, 2017, only two system issues associated with only two applications were preventing FY 2016 application processing.

The FY 2017 FCC Form 471 Application Filing window opened and closed successfully, with just over 40,000 applications received for \$3.2 billion. Through June 30, 2017, 13,432 applications were processed for \$276 million. To date, 33% of applications have been approved with 10% of dollars requested reviewed. SLD and Data Strategy teams worked closely to analyze the application pool to identify opportunities to increase reviewer productivity and throughput. As a result, Waves 1 & 2 for FY 2017 committed approximately 4 times more dollars than the first 2 waves of FY 2016, and the speed was about 24% faster. In one case, the analytics applied to application assignment improved reviewer efficiency by 46%. Partnership and collaboration between USAC teams will continue throughout the processing of the FY 2017 funding applications and these efforts will also lead to improved and streamlined application review process.

Fiber Applications

Fiber applications and related reviews continue to be a high-priority focus for SLD and for the FCC. To increase the velocity of the fiber application review, SLD added additional staff to the Fiber Team. In addition, the SLD Fiber staff has increased their presence at Solix, which is helping to strengthen the relationship and to ensure that fiber reviews are completed with consistency and accuracy. For the second quarter 2017, 430 fiber funding request numbers (FRNs) were processed for a total of approximately \$42.85 million. Many of these FRNs were part of the April 2017 fiber application review that included requested additional information about the applicants' fiber builds. As of June 30, 2017, cumulative FRNs committed were 1,572 for almost \$131 million.

Invoicing

During second quarter 2017 over 132,000 invoice line items were processed and paid in the amount of \$748,602,183. The \$748.60 million of processed invoices represents the largest quarterly dollar volume since program inception. The average processing time for invoice line items continues to decrease with a reduction from 11.9 days in 2Q2016 to 8.7 days in 2Q2017. In addition, SLD conducted a review of its invoicing processes and is developing enhanced procedures to promote better customer service and guidance to further expedite accurate invoice submissions and payments aimed at reducing participant frustration.

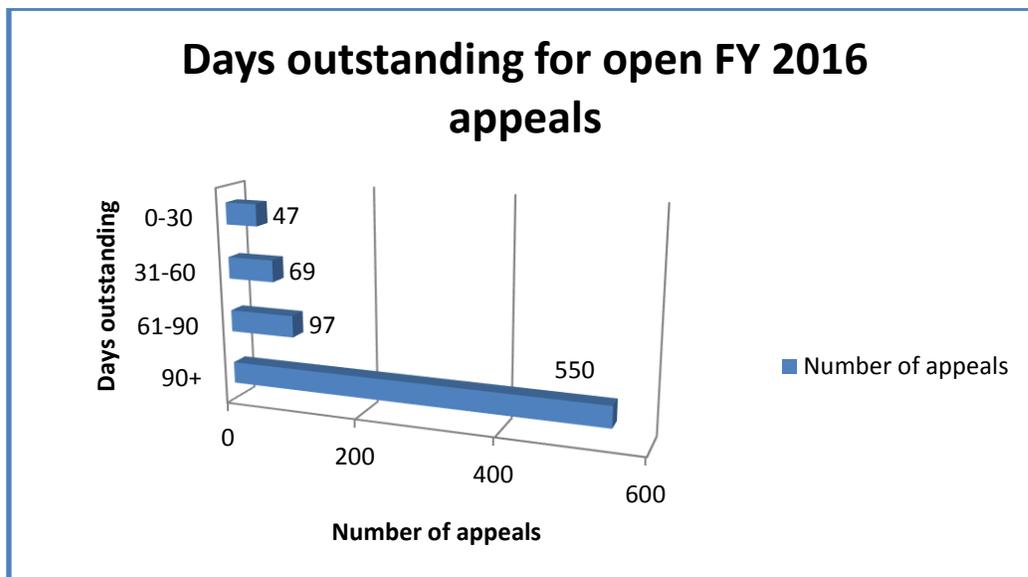
Appeals

SLD processed more appeals in the second quarter of 2017 compared with the first quarter of 2017 while receiving fewer appeals during the quarter resulting in a reduced appeals queue. Specifically, SLD issued 997 appeal decisions during the second quarter 2017 compared with 656 decisions issued during first quarter 2017. As of June 30, 2017, there were 946 appeals remaining in queue compared with the 1,382 appeals that remained in queue as of March 31, 2017.

Leveraging new EPC functionality, SLD released the first FY 2016 appeals wave in April 2017 and issued a total of 567 FY 2016 appeal decisions during the quarter. As of June 30, 2017, there were 763 FY 2016 appeals remaining in queue. For the quarter, the average time for SLD to issue an appeal decision was 137 days, which is an increase compared with 45 days last quarter. The increase is due to processing of FY 2016 appeals which were formerly in queue pending EPC systems development. SLD staff continues to process FY 2016 appeals and is aggressively working to reduce the time to issue appeal decisions now that system functionality is operational.

Quarterly appeals counts are down in the second quarter of 2017. The number of appeals received during this quarter was 666, a decrease compared to last quarter’s appeal count of 899. The reduction is primarily due to material completion of FY2016 FCC Form 471 applications by the end of the first quarter, and fewer funding decisions in the second quarter relative to prior periods.

The following chart shows the number of days outstanding for the 763 FY 2016 appeals which are in process:



Customer Service

In support of the SL Operations team and customer needs, SLD established a “SL Tier 3” team to assist program participants by responding to critical and system related cases that are escalated by the Customer Service Bureau (CSB). During 2Q2017, 1,473 inquiries were escalated to the SL Tier 3 team and they resolved 1,680 cases. Of these, 1,127 were resolved within 30 days or less. Through SL Tier 3 feedback provided to the CSB, the number of inquiries received during 2Q2017 decreased by 14% compared to the prior quarter. Continuous feedback to the CSB has played a key role in resolving issues more quickly and without need for escalation.

Training & Outreach

In second quarter 2017, the SLD Training and Outreach team developed and implemented a number of key outreach campaigns to assist program participants. Highlights include ongoing, individualized outreach to applicants with FY 2016 applications still in need of processing, the creation of a dedicated helpline to assist those who received additional questions related to their FY 2016 fiber applications and window-close communications, including approval and coordination on many last-minute entity changes for large and small filers. The team began introducing its enhanced training offering including partnering with Solix for a two-day training for SLD team members on a full spectrum of topics from PIA review to compliance and invoicing. The team also hosted two new webcasts on success for last-minute filers and best practices for applicants post-window. Between the two webcasts over 6,000 program participants logged on or viewed the post-event recording. Additionally, the team successfully completed logistical planning and opened registration for the 2017 Service Provider training on July 25, 2017 in Dallas, TX. This team also continues to provide extensive oversight on call center operations, including window-close support and escalation process re-design.

Attachment A

Schools & Libraries Scorecard – May 2017

Aggregated performance is the composite of multiple metrics

G
On-track

Y
At-Risk

R
Off-track

NA
Future Metric

PROGRAM OUTCOMES

Performance Measurement Model		
GOAL #1: Ensure affordable access to high-speed broadband sufficient to support digital learning in schools and robust connectivity for all libraries.		
Measurement Category	Target	Status
Broadband Access School Districts: 84% have 100Mbps/1,000 Students	100% of School Districts have 100Mbps/1,000 Students	G
Broadband Access Libraries: 82% report WI-Fi completely or mostly sufficient	100% of Libraries have completely or mostly sufficient W-Fi Connectivity	G
GOAL #2: Maximize the cost-effectiveness of spending for E-rate supported purchases.		
Measurement Category	Target	Status
Internet Access Pricing	Pricing will be analyzed for FY2017 after the window close.	NA
Switch and Access Point Pricing		NA
GOAL #3: Make the E-rate application process fast, simple, and efficient.		
Measurement Category	Target	Status
All workable FCC Form 471 applications by September 1	Complete all FY2017 workable FCC Form 471 applications by September 1, 2017	G

OPERATIONAL MEASURES

PROGRAM INTEGRITY
Comprehensive strategy to prevent fraud, abuse, errors, and waste in the commitment and disbursements

Measurement Category	Target	Status
Defect Rates	< 3%	Y
Audits	TBD	NA
Improper Payments	< 2%	NA

USER EXPERIENCE/USER SUPPORT
Strengthen and simplify user experience to enable successful participation

Measurement Category	Target	Status
Technology (Sev. 1 issues)	0 Sev. 1 Issues	G

OPERATIONAL EFFECTIVENESS
Continuously improve the efficiency and effectiveness of business processes

Measurement Category	Target	Status
Funding Application Request	Aggregated Performance	G
Invoicing	Aggregated Performance	R
Efficiency	Aggregated Performance	Y
Appeals	Aggregated Performance	R
Cycle Time	Aggregated Performance	Y
Customer Service	Aggregated Performance	G

Schools & Libraries (E-rate) Program Highlights

E-rate Scorecard – Q2 2017

Briefing book excludes all materials discussed in Executive Session

Aggregated performance is the composite of multiple metrics

G
On-track

Y
At-Risk

R
Off-track

NA
Future Metric

PROGRAM OUTCOMES

Performance Measurement Model

GOAL #1: Ensure affordable access to high-speed broadband sufficient to support digital learning in schools and robust connectivity for all libraries.

Measurement Category	Target	Status
Broadband Access School Districts: 84% have 100Mbps/1,000 Students	100% of School Districts have 100Mbps/1,000 Students	G
Broadband Access Libraries: 82% report Wi-Fi completely or mostly	100% of Libraries have completely or mostly sufficient W-Fi Connectivity	G

GOAL #2: Maximize the cost-effectiveness of spending for E-rate supported purchases.

Measurement Category	Target	Status
Internet Access Pricing	Pricing will be analyzed for FY2017 after the window close.	NA
Switch and Access Point Pricing		NA

GOAL #3: Make the E-rate application process fast, simple, and efficient.

Measurement Category	Target	Status
All workable FCC Form 471 applications by September 1	Complete all FY2017 workable FCC Form 471 applications by September 1, 2017	G

OPERATIONAL MEASURES

PROGRAM INTEGRITY

Comprehensive strategy to prevent fraud, abuse, errors, and waste in the commitment and disbursements

Measurement Category	Target	Status
Defect Rates	< 3%	Y
Audits	TBD	NA
Improper	< 2%	NA

USER EXPERIENCE/USER SUPPORT

Strengthen and simplify user support to enable successful participation

Measurement Category	Target	Status
Technology issues)	0 Sev. 1	G

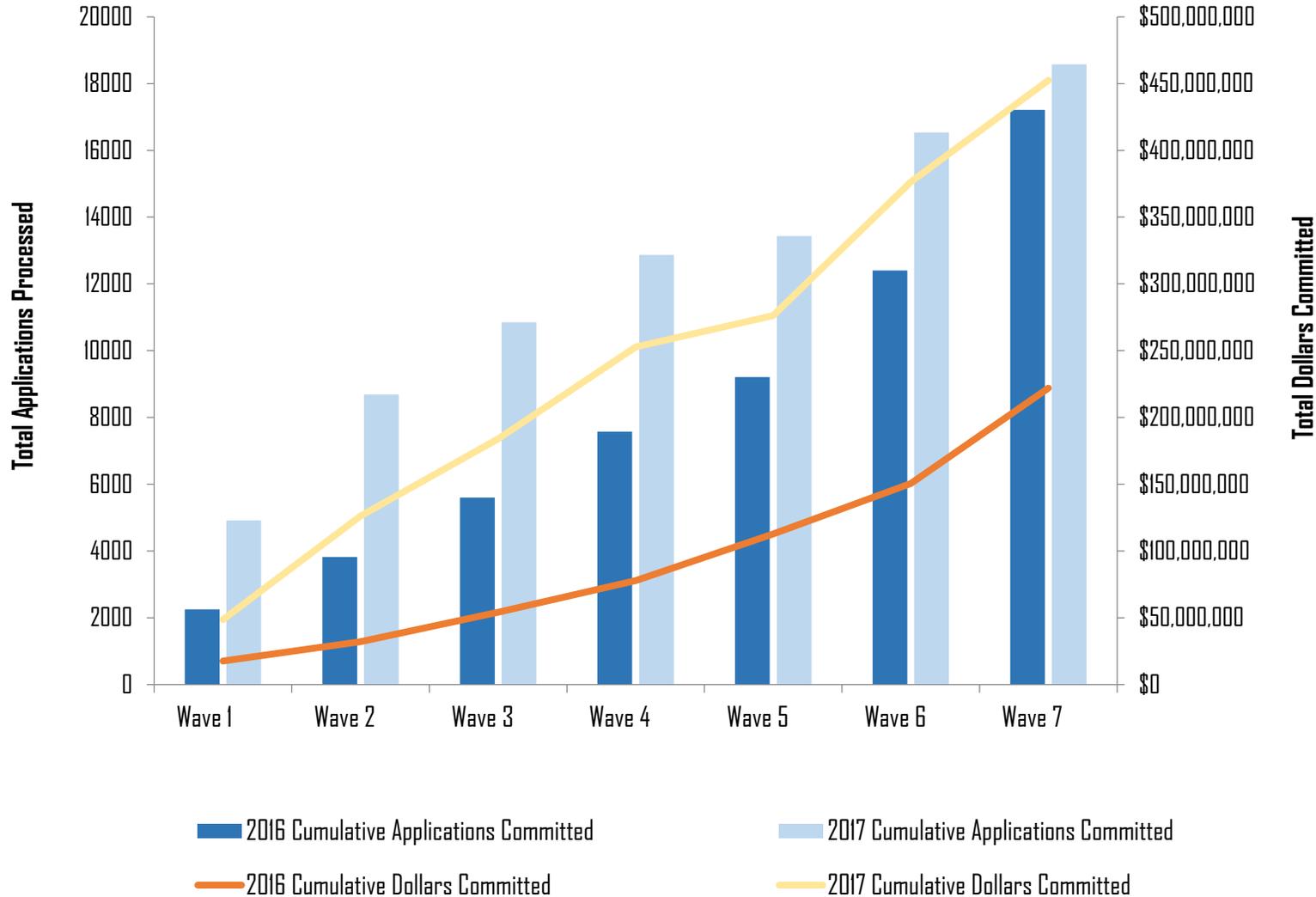
OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business

Measurement Category	Target	Status
Funding Application	Aggregated Performance	G
Invoicing	Aggregated Performance	R
Efficiency	Aggregated Performance	Y
Appeals	Aggregated Performance	R
Cycle Time	Aggregated Performance	Y
Customer Service	Aggregated Performance	G

FY2016 vs. FY2017 as of Wave 7

Committed Dollars and Applications



Total Applications and Dollars

	Applications Committed		\$ Committed	
	2016	2017	2016	2017
C1	14,554	17,421	\$183.7 M	\$433.1 M
C2	2,658	1,154	\$38.2 M	\$19.3 M
Total	17,212	18,575	\$222 M	\$452 M

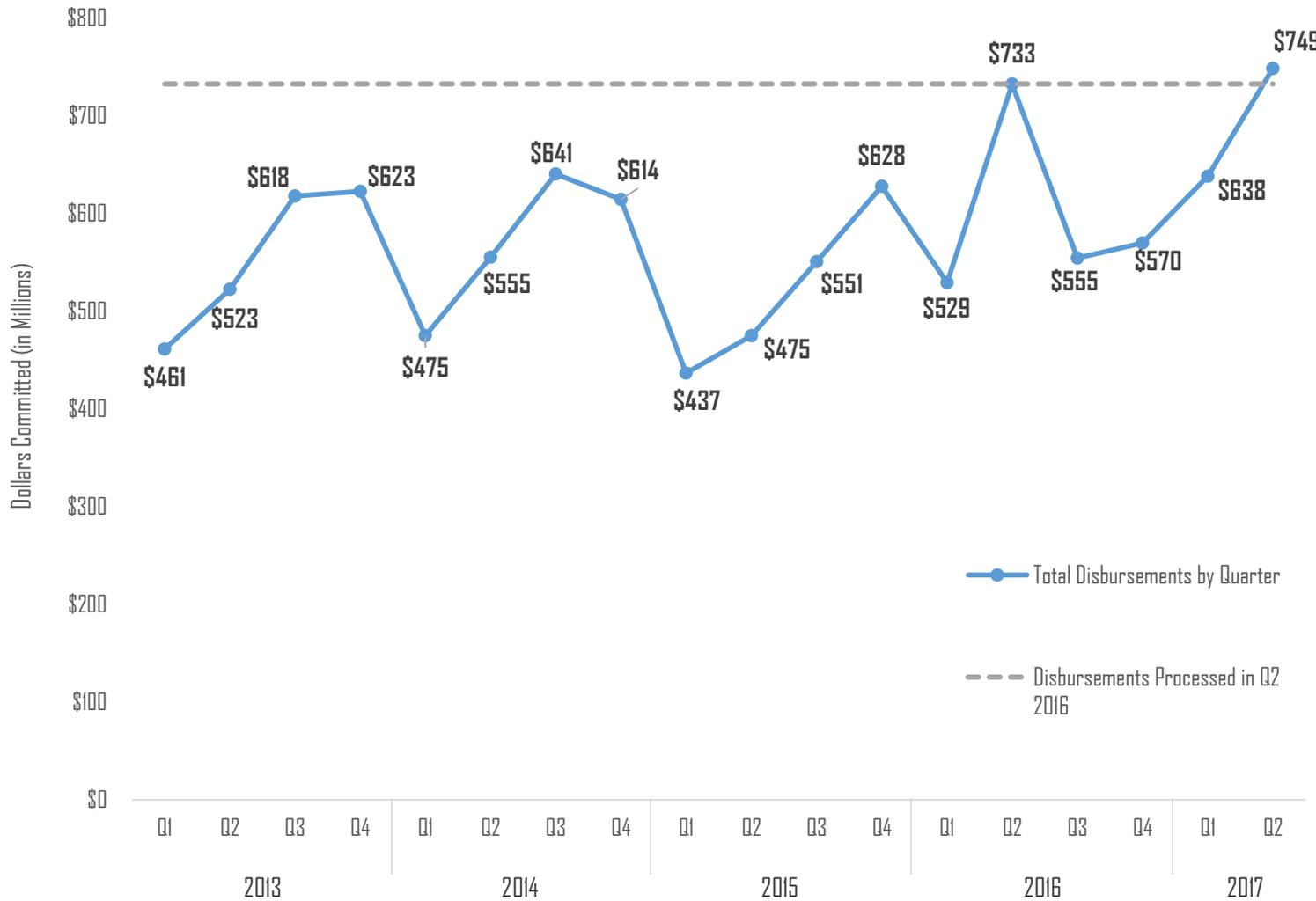
Percent Complete

	% of Applications Committed		% of Dollars Committed	
	2016	2017	2016	2017
C1	44 %	60 %	7 %	19 %
C2	21 %	10 %	3 %	2 %
Totals	38 %	46 %	6 %	14 %

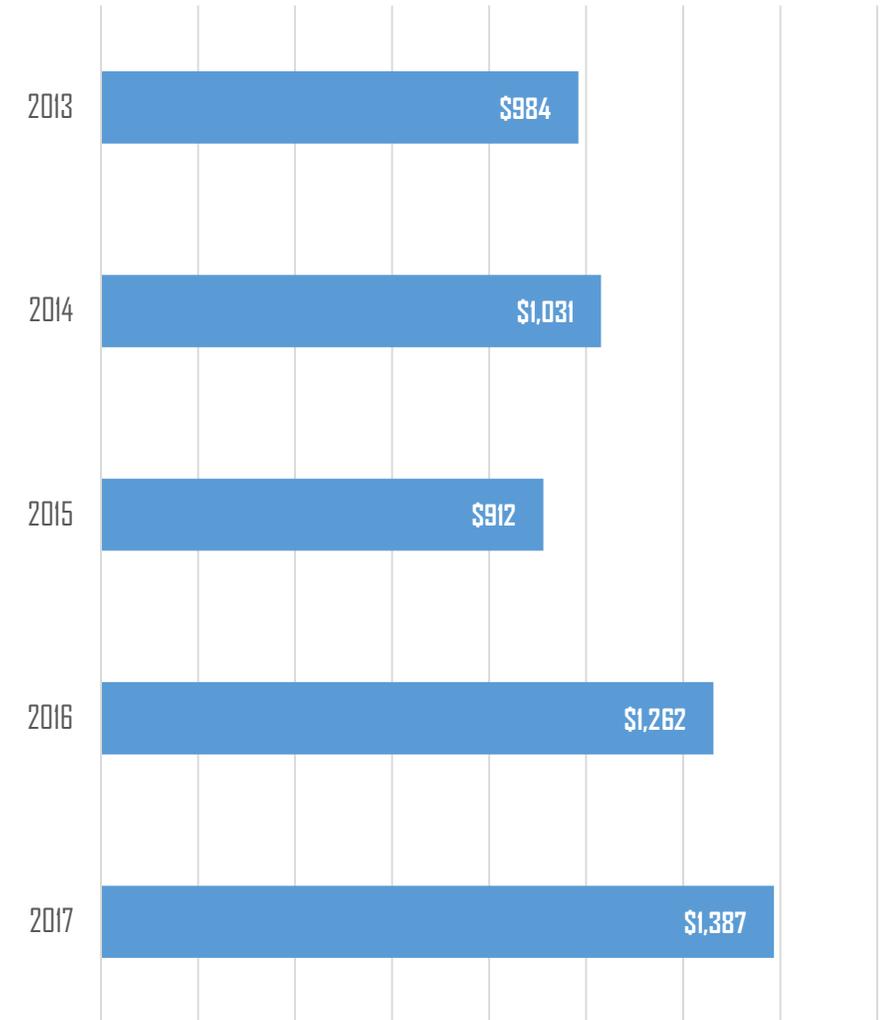
Q1 2017 saw disbursements of \$749 million – the highest since program inception

Briefing book outlines the program of disbursements in the second session

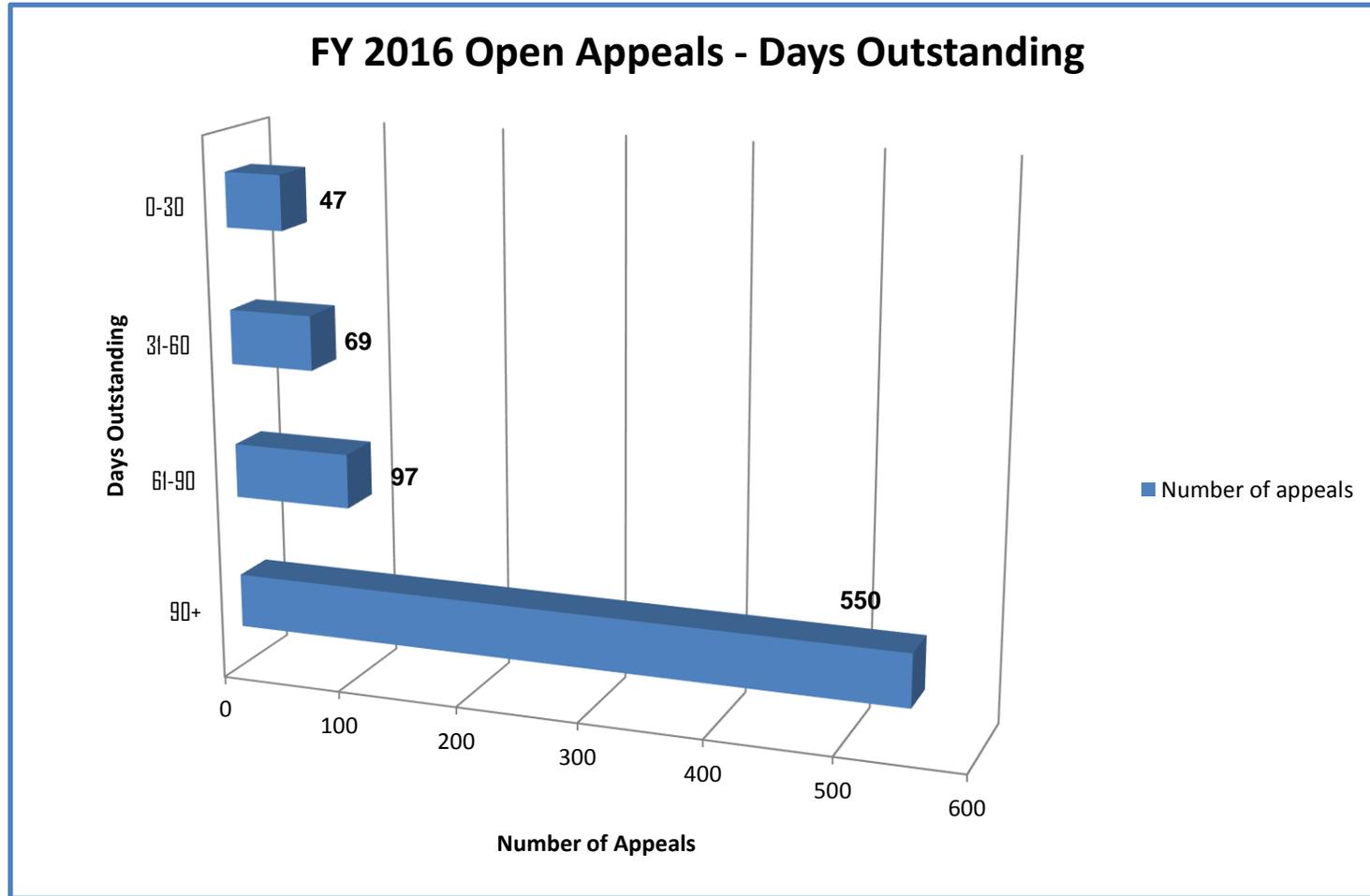
2013 – 2017: Disbursements Processed by Quarter



Disbursements through Q2 by Year (in millions)



FY2016 Appeals Decisions Outstanding as of Q2 2017



- Schools and Libraries issued its first FY2016 appeals decision in Q2 2017 upon availability of EPC functionality
- 42% (567 of 1330) of FY2016 Appeals were decided in Q2 2017
- Average time to decide an Appeal increased to 137 days



**Universal Service
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