



Schools & Libraries Committee

Briefing Book

Monday, January 29, 2018

10:00 a.m. - 12:00 p.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

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

<p>Monday, January 29, 2018 10:00 a.m. – 12:00 p.m. Eastern Time USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005</p>
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<u>OPEN SESSION</u>		<i>Estimated Duration in Minutes</i>
Chair	a1. Consent Items (each available for discussion upon request): A. Approval of Schools and Libraries Committee Meeting Minutes of October 23, 2017. B. Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i> .	5
Catriona	a2. Approval of Schools and Libraries Support Mechanism 2nd Quarter 2018 Programmatic Budget and Demand Projection for the January 31, 2018 FCC Filing.	10
Chair	a3. Recommendation for Election of Committee Chair and Vice Chair.	10
Teleshia Delmar	i1. Information on Ten USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports – <i>Executive Session Option</i> .	10
Catriona	i2. Schools & Libraries Support Mechanism Business Update.	20

<u>EXECUTIVE SESSION</u>		<i>Estimated Duration in Minutes</i>
Catriona	i3. Schools & Libraries Support Mechanism Business Update Continued – Confidential – <i>Executive Session Recommended</i> .	10
Kyle	a4. Consideration of a Contract Award for Appian Cloud Licenses. – Confidential – <i>Executive Session Recommended</i> .	10
Catriona	a5. Approval of 2018 Annual Schools and Libraries Support Mechanism Programmatic Budgets. – Confidential – <i>Executive Session Recommended</i> .	10
Craig	i4. Update on Request for Proposal for IT Services Contract for E-rate Productivity Center (EPC) – Confidential – <i>Executive Session Recommended</i> .	10
Craig/ Catriona	i5. Update on Request for Proposal for Business Process Outsourcing Services – Confidential – <i>Executive Session Recommended</i> .	25

Next Scheduled USAC Schools & Libraries Committee Meeting

Monday, April 23, 2018
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 resolution below:

- A. Committee meeting minutes of October 23, 2017 (*see Attachment A*).
- B. Approval for discussing in *Executive Session* agenda items:
 - (1) **i3** - Schools & Libraries Support Mechanism Business Update Continued. USAC management recommends that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *processing procedures and Information Systems development*.
 - (2) **a4** - Consideration of a Contract Award for Appian Cloud Licenses. 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*. This matter is also subject to *attorney/client privilege*.
 - (3) **a5** - Approval of 2018 Annual Schools and Libraries Support Mechanism Programmatic Budgets. 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*.
 - (4) **i4** - Update on Request for Proposal for IT Services Contract for E-rate Productivity Center (EPC). 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*.
 - (5) **i5** - Update on Request for Proposal for Business Process Outsourcing Services. 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*.

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: (1) the Committee meeting minutes of October 23, 2017, and (2) discussion in *Executive Session* of the items noted above.

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

SCHOOLS & LIBRARIES COMMITTEE MEETING
Monday, October 23, 2017

(DRAFT) MINUTES¹

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, October 23, 2017. Dr. Dan Domenech, Committee Chair, called the meeting to order at 10:00 a.m. Eastern Time, with seven of the nine Committee members present:

Bocher, Bob
Buzacott, Alan
Choroser, Beth
Domenech, Dr. Dan – Chair
Mason, Ken – Vice Chair
Robinson, Vickie – Acting Chief Executive Officer, General Counsel and
Assistant Secretary
Talbot, Dr. Brian

Mr. Brent Fontana and Dr. Mike Hernandez joined the meeting by telephone at 10:03 a.m. Eastern time and respectively left the meeting at 10:43 a.m. Eastern time and 10:45 a.m. Eastern time. They did not vote on or participate in the discussion of items a1, a4, a5 and i3.

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
Gillan, Joe – Member of the Board
Kinser, Cynthia – Member of the Board
Lee, Karen – Vice President of Rural Health Care
Lubin, Joel – Member of the Board
Salvator, Charles – Vice President of Finance, Chief Financial Officer and
Assistant Treasurer

¹ Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Scott, Wayne – Vice President of Internal Audit
Sweeney, Mark – Chief Operating Officer
Tinic, Atilla – Member of the Board
Wein, Olivia – Member of the Board

Others present:

<u>NAME</u>	<u>COMPANY</u>
Anderson, Jarnice	USAC
Ayer, Catriona	USAC
Beaver, Tracey	USAC
Beckford, Ernesto	USAC
Bethel, Tameca	USAC
Carpenter, Nikki-Blair	USAC
Delmar, Teleshia	USAC
Diephouse, Greg	USAC
Ejaz, EJ	USAC
Goode, Vernell	USAC
Gross Guinan, Gabriella	USAC
Jenkins, Robin	MissionSide
Jones, Frank	Solix, Inc.
Kaplan, Peter	Funds for Learning
Lear, Kathleen	Maximus
Lechter, Jonathan	FCC
Lee, Brandon	USAC
LeNard, David	E-Rate Elite Services
Mattey, Carol	Mattey Consulting
McCornac, Carolyn	USAC
Mitchell, Tamika	USAC
Nuzzo, Patsy	USAC
Rovetto, Ed	USAC
Schrieber, Johnnay	USAC
Sequin, Eric	Solix
Smith, Chris	USAC
Voth, Cara	USAC

OPEN SESSION

- a1. Consent Items.** Dr. Domenech introduced this item to the Committee.
- A. Committee meeting minutes of July 24, 2017 and August 29, 2017.
 - B. Approval for discussing in *Executive Session* agenda items:

- (1) **a4** – Consideration of IT Services Contract for E-rate Productivity Center (EPC). 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*.
- (2) **a5** – Consideration of Amendment to Call Center and Business Process Outsourcing Services Agreement with Solix, Inc. USAC management recommends that discussion of this item be conducted in *Executive Session* because this item relates to *procurement strategy and contract administration*.
- (3) **i3** – Information on Preliminary 2018 Annual Schools and Libraries Support Mechanism Budget. USAC management recommends that discussion of this item be conducted in *Executive Session* because this item relates to *procurement strategy and contract administration*.

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

RESOLVED, that the USAC Schools & Libraries Committee hereby approves the Committee meeting minutes of July 24, 2017 and August 29, 2017, and discussion in *Executive Session* of the items noted above.

a2. Approval of Schools and Libraries Support Mechanism 1st Quarter 2018 Programmatic Budget and Demand Projection for the November 2, 2017 FCC Filing. Mr. Davis presented this item for consideration.

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

RESOLVED, that the USAC Schools and Libraries Committee approves a 1st Quarter 2018 programmatic operating budget for the Schools and Libraries Support Mechanism of \$18.01 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee approves a 1st Quarter 2018 programmatic capital budget for the Schools and Libraries Support Mechanism of \$0.21 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee directs USAC staff to submit a collection requirement of \$18.22 million for Schools and Libraries Support Mechanism administrative costs in the required November 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 October 23, 2017 a summary of the 1st Quarter 2018 Schools and Libraries Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required November 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.

- a3. Consideration of Funding Year 2018 Filing Window Dates.** Mr. Davis presented this item for consideration.

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

RESOLVED, that the USAC Schools & Libraries Committee accepts the recommendation of USAC management to open the Funding Year 2018 filing window no earlier than January 2, 2018 and to close the Funding Year 2018 filing window on or after March 20, 2018, subject to the requirements of Section 54.502 of the Commission's rules; and

RESOLVED FURTHER, that upon consultation with the Committee Chair, USAC management is authorized to adjust the opening and closing dates, as circumstances may warrant.

- i1. Information on Nine USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Smith, Senior Manager of Internal Audit, presented this item to the Committee for discussion. Mr. Smith noted that common audit findings are compiled, root causes explored and shared with the Schools and Libraries division to prevent similar findings and to assist the team with preparing content for training materials.
- i2. Schools and Libraries Support Mechanism Business Update.** Mr. Davis and Ms. Catriona Ayers, Senior Director of Program Management, presented this item for discussion. Mr. Davis noted that for Q3 over 20,000 applications had been processed for \$1.09 billion in commitments. In addition, Mr. Davis noted that through Q3 over 33,600 applications were processed for \$1.4 billion in commitments. FY 2017 applications are 22 percent higher than the same period for FY 2016 and dollars committed are 125 percent higher. Ms. Ayer reported on EPC IT developments, including the deployment of post-commitment processing capabilities for Forms 486 and 500, appeals, service substitutions, and SPIN changes.

At 10:57 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* and recessed until 11:01 a.m. Eastern Time at which time they reconvened for the purpose of discussing the confidential items listed above.

EXECUTIVE SESSION

- a4. Consideration of IT Services Contract for E-rate Productivity Center (EPC).** Mr. Davis presented this item for discussion, noting that USAC is executing on improving E-rate program administration.

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

RESOLVED, that the USAC Schools and Libraries Committee, having reviewed the recommendation of USAC management, hereby authorizes USAC management to increase the contract value of the E-rate Productivity Center (EPC) Operations & Maintenance Contract with Incentive Technology Group, LLC, by a not-to-exceed amount of \$9.2 million, plus applicable taxes, subject to requisite FCC approval. This will bring the total contract value to \$23,988,494.24, plus applicable taxes. The additional funds will enable operations and maintenance support and the implementation of improvements to EPC for the first six months of 2018 (January 1 through June 30, 2018).

- a5. Consideration of Amendment to Call Center and Business Process Outsourcing Services Agreement with Solix, Inc.** Mr. Davis presented this item for consideration.

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

RESOLVED, that the USAC Schools & Libraries Committee, having reviewed the recommendation of USAC management, hereby authorizes management, subject to any necessary FCC approvals, to add funding in the not-to-exceed amount of approximately \$35,842,348 (plus applicable taxes) to the existing contract with Solix and to amend and extend the term of the contract for a one-year period through December 31, 2018.

- i3. Information on Preliminary 2018 Annual Schools and Libraries Support Mechanism Budget.** Mr. Davis presented this item to the Committee for discussion.

At 11:33 a.m. Eastern Time the meeting continued in *Executive Session* with members of the Board, Mr. Sweeney and Mr. Davis present.

At 12:13 a.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 took action on items a4 and a5 and discussed item i3. On a motion duly made and seconded, the Committee adjourned at 12:13 a.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

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

ACTION ITEM

**Approval of Schools and Libraries Support Mechanism
2nd Quarter 2018 Programmatic Budget and
Demand Projection for the January 31, 2018 FCC Filing**

Action Requested

The USAC Board of Directors Schools & Libraries Committee (Committee) is requested to approve the 2nd Quarter 2018 (2Q2018) programmatic budget and demand projection for the Schools and Libraries Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's January 31, 2018 quarterly filing.

Discussion

The budget before the Committee includes the costs of administering the Schools and Libraries Support Mechanism and an allocation of USAC common costs. As set forth in FCC rules¹ and USAC's By-laws,² each programmatic committee has authority over its programmatic budget. The USAC Board of Directors has responsibility for the USAC common budget and for the overall consolidated budget.

2Q2018 Operating Budget

Based on current operational responsibilities and requirements, USAC management estimates a direct operating budget of \$17.66 million will be required to fund Schools and Libraries Support Mechanism programmatic activities in 2Q2018, which includes:

- \$1.96 million in compensation and benefits for 51 full time equivalents (FTEs), including the dedicated information technology (IT) and data support teams.
- \$8.35 million for Solix program administration costs.
- \$5.59 million in professional fees, including:
 - \$4.64 million for E-Rate Productivity Center (EPC) operations and maintenance.
 - \$0.34 million for call center support.
 - \$0.29 million for IT and data team contract labor.
 - \$0.27 million for Federal Information Security Management Act (FISMA) testing.
 - \$0.03 million for EPC IT support.
 - \$0.02 million for meeting planner services.

¹ 47 C.F.R. § 54.705(a).

² By-Laws of Universal Service Administrative Company, Article II, § 8.

- \$1.01 million for beneficiary compliance audits under the Beneficiary and Contributor Audit Program (BCAP).
- \$0.55 million for cloud hosting costs.
- \$0.20 million for travel, meetings and conferences, training and education, printing, and personnel expenses.

The details to support the allocation of USAC common operating costs to the Schools and Libraries Mechanism are included with the Board budget materials under item aBOD05 013018.

2Q2018 Capital Budget

USAC management does not anticipate any direct capital costs attributable to the Schools and Libraries Support Mechanism in 2Q2018.

The details to support the allocation of USAC common capital costs to the Schools and Libraries Mechanism are included with the Board budget materials under item aBOD08 013018.

Budget Attachments

Attachment A provides the details and compares the proposed 2Q2018 operating budget to 2Q2017 actual expenditures.

Attachment B provides a comparison of the budget to actual expenditures for the 12 months ending December 31, 2017. Explanations are provided for significant variances.

Collection Requirement

Based on the 2Q2018 operating and capital budgets, USAC management estimates a collection requirement of \$17.66 million for Schools and Libraries Support Mechanism administrative costs in 2Q2018, as follows:

Collection Requirement	Requirement in Millions
2Q2018 Operating Budget	\$17.66
2Q2018 Capital Budget	0.00
Total Collection Requirement	\$17.66

Funding Requirement

On a quarterly basis, USAC is required to submit to the FCC the projected demand for the upcoming quarter³ and estimates of unused funds from prior funding years (FYs).⁴

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, USAC management estimates demand for Funding Year 2017 is \$3,146.53 million.

Net Demand for Collections Purposes

USAC estimates the 2Q2018 demand requirement for the Schools and Libraries Support Mechanism as follows:

Funding Requirement	Requirement in Millions
Funding Year 2017 Demand	\$3,146.53
Funds Rolled Over from Prior Fund Years	(1,200.24)
Required Collection	1,946.29
Funds Collected	(1,459.71)
Total 2Q2018 Funding Requirement	\$486.57

³ 47 C.F.R. § 54.709(a). 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 Fund (USF) contribution factor for the upcoming quarter, and USAC uses the resulting contribution factor to invoice universal service contributors once the quarter begins.

⁴ 47 C.F.R. § 54.507(a).

⁵ See *Wireline Competition Bureau Announces E-rate Inflation-Based Cap for Funding Year 2017*, CC Docket No. 02-6, Public Notice, 32 FCC Rcd 1869 (2017). 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. The \$2.410 billion annual cap was adjusted to \$3.900 billion. The new cap included the original \$2.250 billion plus the previous inflation amount of \$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.

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).

Prior Period Adjustments

Results for 4th Quarter 2017 (4Q2017) contribute to an over-funded condition. The total prior period adjustment to the 2Q2018 funding requirement based on 4Q2017 actual results will decrease the funding requirement by \$3.85 million. The explanation for the adjustment is provided below:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2017 Billings were lower than projected	\$0.92
Interest income was higher than projected for 4Q2017	(0.21)
Bad debt expense was lower than anticipated	(4.56)
Total Prior Period Adjustment	(\$3.85)

Summary of Demand

The total funding requirement of \$486.57 million is adjusted as follows, resulting in a total projected 2Q2018 funding requirement for the Schools and Libraries Support Mechanism of \$506.21 million.

**Schools and Libraries Support Mechanism
Fund Size Projections for 2nd Quarter 2018
(in millions)**

Schools and Libraries Support	\$486.57
Prior Period Adjustment	(3.85)
USAC Admin Expenses (including \$10.63 million of common costs)	28.29
Interest Income	(4.80)
Total 2Q2018 Demand	\$506.21

**Schools and Libraries Support Mechanism
Quarter-Over-Quarter Projections
(in millions)**

	2Q2018	1Q2018	4Q2017	3Q2017
Schools and Libraries Support	\$486.57	\$486.57	\$486.57	\$486.57
Prior Period Adjustment	(3.85)	38.04	5.77	(6.08)
USAC Admin Expenses	28.29	30.06	17.46	27.72
Interest Income	(4.80)	(9.56)	(10.33)	(10.12)
Total Demand	\$506.21	\$545.11	\$499.47	\$498.09

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 2nd Quarter 2018 Schools and Libraries Support Mechanism operating budget of \$17.66 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee directs USAC staff to submit a collection requirement of \$17.66 million for the Schools and Libraries Support Mechanism administrative costs in the required January 31, 2018 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 January 29, 2018, a summary of the 2nd Quarter 2018 Schools and Libraries Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required January 31, 2018 filing to the FCC on behalf of

the Committee. USAC staff may make adjustments if the total variance for the Schools and Libraries Support Mechanism is equal to or less than \$10 million, or may seek approval from the Schools & Libraries Committee Chair to make adjustments if the total variance is greater than \$10 million, but not more than \$15 million.

Expense Category	2Q2017 Actual	2Q2018 Budget	Increase/ (Decrease)	Explanations
Compensation & Benefits	\$ 2,131.04	\$ 1,957.99	\$ (173.05)	51 FTEs in 2Q2018 vs an average of 50 in 2Q2017. 2Q2017 actuals include an adjustment to reclass FTEs charged to Common in 1Q2017.
Solix Costs	9,375.00	8,348.48	(1,026.52)	Reduction due to transition of call center support from Solix to new vendor and transaction based pricing in the new contract
External BCAP Costs	888.77	1,007.15	118.38	Increase in outsourced audit activity in 2Q2018 under the Beneficiary and Contributor Audit Program (BCAP), offset by a decrease in co-sourced audit activity in 2Q2018 under BCAP
Professional Fees & Contract Labor	4,285.85	5,594.91	1,309.06	Increase for call center support and E-Rate Productivity Center (EPC) operations and maintenance, offset by decrease in contract labor
Telephone & Computer Support	425.92	550.00	124.08	Appian cloud hosting costs for EPC
Travel, Meetings & Conferences	92.44	164.03	71.59	Lodging, transportation, and meals associated with program, user support, and audit travel
Other Expenses	5.08	35.34	30.25	Higher spending anticipated for training and education
Total Programmatic Operating Costs	17,204.11	17,657.89	453.79	
Direct Capital Costs	2,847.13	-	(2,847.13)	Decrease due to less EPC software development
Total Direct Costs - Schools & Libraries Program	\$ 20,051.24	\$ 17,657.89	\$ (2,393.35)	
Common Operating Costs Assigned to Schools & Libraries Program	\$ 10,155.35	\$ 10,447.91	\$ 292.56	Allocation of indirect operating costs based on the Cost Allocation Methodology (CAM)
Common Capital Costs Assigned to Schools & Libraries Program	183.88	180.90	(2.98)	Allocation of indirect capital budget based on the CAM
Total Common Costs Assigned to Schools & Libraries Program	\$ 10,339.24	\$ 10,628.81	\$ 289.58	
Total Schools & Libraries Program with Allocations	\$ 30,390.48	\$ 28,286.71	\$ (2,103.77)	

Direct Operating Expenses	Actual	Budget	Variance	%	Explanations
Compensation & Benefits	\$ 6,702.10	\$ 8,041.30	\$ 1,339.20	17%	Lower spending due to vacant positions (50 FTEs vs 53 budgeted)
Solix Costs	37,852.05	37,833.33	(18.71)	0%	
External BCAP Costs	2,721.97	3,603.76	881.79	24%	Lower spending on outsourced and co-sourced audits under the Beneficiary and Contributor Audit Program
Professional Fees & Contract Labor	10,254.51	13,556.36	3,301.85	24%	Lower spending on E-Rate Productivity Center (EPC) operations & maintenance
Telephone & Computer Support	2,019.93	1,857.14	(162.78)	-9%	
Travel, Meetings & Conferences	321.37	673.76	352.39	52%	Lower spending on user support meetings and conferences, audit travel
Other Expenses	47.95	93.94	45.98	49%	Lower spending on training and education
Total Direct Operating Expenses	\$ 59,919.87	\$ 65,659.58	\$ 5,739.71	9%	
Indirect Expense / Allocations					
USAC Administration	\$ 41,340.99	\$ 42,978.01	\$ 1,637.02	4%	
Total Expense	\$ 101,260.87	\$ 108,637.59	\$ 7,376.73	7%	

Universal Service Administrative Company Schools & Libraries Committee Meeting

ACTION ITEM

Recommendation for Election of Committee Chair and Vice Chair

Action Requested

The Schools & Libraries Committee (Committee) is taking action to bring its Chair and Vice Chair nominations for consideration by the full Board of Directors (Board) at the Board meeting to be held on January 30, 2018.

Discussion

The pertinent resolution related to the election of committee chair and vice chair positions was adopted by the Board on January 25, 2000 and reads as follows:

RESOLVED, that the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee that: (1) in addition to the annual election of officers, all Committee chairs and vice chairs shall also be elected annually; (2) the first election for Committee chairs and vice chairs shall occur at the election of officers at the January 2001 Board of Directors meeting; (3) there shall be no term limits imposed on officer and Committee chair and vice-chair positions; and (4) there shall be no automatic succession of positions....¹

On January 31, 2017, the Board elected Dr. Dan Domenech as Chair and Ken Mason as Vice Chair of the Schools & Libraries Committee.

At their January 29, 2018 quarterly meetings, each committee of the Board (including the Audit Committee and each of the programmatic committees) will nominate Board members to serve as chair and vice chair of their respective committees. Those recommendations will be submitted to the Board at the Board meeting to be held on January 30, 2018.

Recommended USAC Schools & Libraries Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

¹ USAC Board of Directors Meeting Minutes, at 4 (Jan. 25, 2000), *available at* <http://usac.org/about/about/leadership/board-minutes/bod.aspx>.

RESOLVED, that the USAC Schools & Libraries Committee recommends that the USAC Board of Directors elect _____ as Chair and _____ as Vice Chair of the Committee. The term for each position begins immediately upon the election to such position by the Board and ends at such time as the Chair or Vice Chair (as the case may be): (i) is replaced by a successor selected by the Board, (ii) resigns from the Committee or the Board, (iii) is removed by resolution of the Board, or (iv) is no longer a member of the Board (whichever comes first).

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

INFORMATION ITEM – *Executive Session Option*

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

Information Presented

This information item provides a summary of the results for ten 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 Schools and Libraries Committee (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 ten Schools and Libraries Support Mechanism beneficiaries. The purpose of the audits was to determine whether the beneficiaries complied with Federal Communications Commission (FCC or Commission) 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 **Attachments A – E**.

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
Santa Ana Unified School District, California	0	<ul style="list-style-type: none"> No Findings. 	\$1,074,342	\$0	\$0	N/A
Winston-Salem/Forsyth County School District, North Carolina Attachment A	2	<ul style="list-style-type: none"> Beneficiary Over-Invoiced the Schools and Libraries Program (SLP) for Ineligible Services – Beneficiary Over-Invoiced SLP. The Beneficiary did not remove ineligible charges from its service provider bills before invoicing SLP. Lack of Necessary Resources to Make Effective Use of Equipment. The Beneficiary is not using all of the equipment for which it requested funding. 	\$6,398,768	\$107,073	\$107,073	Y
Gallup McKinley County School District, New Mexico Attachment B	3	<ul style="list-style-type: none"> Service Provider Over-Invoiced SLP for Services Not Requested. The Service Provider invoiced SLP for services that the Beneficiary did not request on the Item 21 Attachment to its FCC Form 	\$1,676,692	\$58,119	\$40,899	Y

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		471 and that the SLP had therefore not approved for funding. <ul style="list-style-type: none"> • Beneficiary Over-Invoiced SLP for Duplicative Services. The Beneficiary upgraded its WAN circuits, but did not have the old circuits disconnected for two months; as a result, the service provider invoiced for duplicative services during that period. 				
Abilene Independent School District, Texas	1	<ul style="list-style-type: none"> • No Material Findings. 	\$1,679,120	\$0	\$0	N
St. Michael School, Illinois	1	<ul style="list-style-type: none"> • No Material Findings. 	\$1,065	\$0	\$0	N
Charter Schools USA, Florida Attachment C	3	<ul style="list-style-type: none"> • Service Provider Over-Invoiced SLP for Ineligible Services and Equipment. The Service Provider requested reimbursement for ineligible services, for eligible services under the incorrect Funding Request Number (FRN), failed to apportion and apply credits, and had mathematical errors in 	\$3,730,192	\$293,317	\$293,317	Y

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		<p>its documentation supporting reimbursement requests.</p> <ul style="list-style-type: none"> • Equipment Not Used at the Requested Location for the Requested Purpose. Internal connections equipment was not installed and in use at the time of the audit. • Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills. Unit prices for equipment provided per the Service Provider bills and contract between the Beneficiary and the Service Provider were less than the unit price per the Service Provider Invoice (SPI) reimbursement requests submitted to USAC. 				
<p>Austin Independent School District, Texas</p> <p>Attachment D</p>	<p>1</p>	<ul style="list-style-type: none"> • Failure to Comply with Competitive Bidding Requirements. Price Was Not the Primary Factor – Price was not the primary factor in the bid evaluation process related to 56 FRNs for Category Two 	<p>\$982,216</p>	<p>\$2,771,201</p>	<p>\$982,216*</p>	<p>Y</p>

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
		services.				
New York Public Library, New York Attachment E	3	<ul style="list-style-type: none"> Lack of Necessary Resources to Make Effective Use of Services and Equipment. The Beneficiary physically installed switches purchased through FRNs 2785219, 2786798 and 2786815 on racks, but did not demonstrate effective use of the equipment as no ports were being utilized. 	\$1,002,661	\$104,483	\$104,483	Y
Twin Rivers Unified School District, California	4	<ul style="list-style-type: none"> Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills. The Service Provider was unable to provide adequate documentation to support selected SPI reimbursements requests submitted to the E-rate Program and disbursement made for FRN 2836636. 	\$2,879,149	\$22,093	\$22,093	N
Fort Worth Independent School District, Texas	0	<ul style="list-style-type: none"> No Findings. 	\$1,429,947	\$0	\$0	N/A

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Total	18		\$20,854,152	\$3,356,286	\$567,865	

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

Attachment A

SL2016BE022

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

WINSTON-SALEM/FORSYTH COUNTY SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT No. SL2016BE022



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
WINSTON-SALEM/FORSYTH COUNTY SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

September 13, 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 Winston-Salem/Forsyth County School District (Beneficiary), Billed Entity Number (BEN) 126817, 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 two detailed audit findings 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 and USAC 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 Act

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

Audit Results	Monetary Effect	USAC Recovery Action	Recommended Commitment Adjustment
Finding No. 1, 47 C.F.R. § 54.502(a) – Beneficiary Over-Invoiced SLP for Ineligible Services – Beneficiary Over-Invoiced SLP. The Beneficiary did not remove ineligible charges from its service provider bills before invoicing SLP.	\$60,485	\$60,485	\$0
Finding No. 2, 47 C.F.R. § 54.504(a)(1)(iii) – Lack of Necessary Resources to Make Effective Use of Equipment. The Beneficiary is not using all of the equipment for which it requested funding.	<u>\$46,588</u>	<u>\$46,588</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$107,073</u>	<u>\$107,073</u>	<u>\$0</u>

USAC Management Response

USAC Management concurs with the Audit Results stated above for Finding No. 1. For Finding No. 2, USAC will conduct outreach to the Beneficiary and determine the recovery amount consistent with FCC Rules and Orders. In addition, USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC also directs the Beneficiary to USAC's website under "Reference Area" for guidance on Invoicing available at <http://usac.org/sl/tools/reference-area.aspx>. Further, USAC recommends the Beneficiary and service provider 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 Winston-Salem, North Carolina that serves more than 56,000 students.

The following chart summarizes the Schools and Libraries Program (SLP) support amounts committed and disbursed to the Beneficiary as of June 9, 2016, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$5,359,758	\$5,241,894
Internet Access	\$16,128	\$16,128
Telecommunications	\$925,440	\$925,440
Voice	\$336,664	\$215,306
Total	<u>\$6,637,990</u>	<u>\$6,398,768</u>

The "amount committed" total represents 7 FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2015 that resulted in 178 Funding Request Numbers (FRNs). We selected a sample of 15 of the 178 FRNs, which represent \$2,668,846 of the funds committed and \$2,604,632 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 used its funding effectively and whether it had adequate controls in place. We performed inquiries, direct observation, and inspection of documentation 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 USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

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 or executing month-to-month agreements 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 472, *Billed Entity Applicant Reimbursements (BEARs)*; 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 service provider bills associated with the BEAR and SPI forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the BEAR and 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 Findings

Finding No. 1, 47 C.F.R. § 54.502(a) – Beneficiary Over-Invoiced SLP for Ineligible Services

Condition

The Beneficiary invoiced SLP for \$100,808 in ineligible voice service charges on BEAR No. 2332794 for FRN 2804418. The service provider bills supporting the BEAR spanned July to December 2015 and included ineligible data, messaging, and custom calling features. When

invoicing SLP for the voice service charges, the Beneficiary did not remove costs of cellular plans that the service provider identified as ineligible in its proposal to provide the services, nor did the Beneficiary remove other ineligible charges such as hotspot, navigation, extended warranty, caller identification, air card, text messaging allowance, and unlimited camera messaging charges.

Cause

The Beneficiary stated that it included ineligible costs on its invoices due to an oversight. The Beneficiary did not have adequate controls and procedures in place to ensure that it did not invoice USAC for ineligible services.

Effect

The Beneficiary overstated its invoices to SLP by \$100,808. The Beneficiary’s discount rate for voice services was 60 percent, resulting in total overpayment of \$60,485.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Voice (FRN 2804418)	\$60,485	\$60,485	\$0

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement controls and procedures to ensure that it only invoices SLP for the cost of eligible services approved for funding.

Beneficiary Response

The Condition the audit observed is factual and the conclusion reached is valid. The Winston-Salem/Forsyth County School District made a clerical error and over-invoiced SLP for \$100,808 in ineligible voice service charges on BEAR No. 2332794 for FRN 2804418. The Winston-Salem/Forsyth County School District intends to comply with audit recommendations listed below.

1. *USAC management seek recovery of the amount identified in the Effect section above.*
2. *The Beneficiary implement controls and procedures to ensure that it only invoices SLP for the cost of eligible services approved for funding.*

Finding No. 2, 47 C.F.R. § 54.504(a)(1)(iii) – Lack of Necessary Resources to Make Effective Use of Equipment

Condition

The Beneficiary did not use all of the equipment for which it received SLP funding on FRNs 2835226, 2834762, and 2835422; and it was unable to demonstrate a current need for the unused equipment. We performed site visits to five schools to inspect equipment purchased with Funding Year 2015 E-rate funds. At two of the schools, Parkland High School (FRN 2835226) and Mt. Tabor High School (FRN 2834762), we identified a total of 16 switches that had been installed and mounted but that were not in use. Beneficiary representatives stated that some of the switches were reserved for security cameras, which USAC does not consider to be necessary for educational purposes. At a third school, Reagan High School (FRN 2835422), we identified three access points that the Beneficiary had purchased with E-rate funds but that were not included on the equipment list, had not been installed, and did not have a planned use.

Cause

The Beneficiary did not limit its Category 2 funding requests to equipment currently required for educational purposes.

Effect

The Beneficiary overstated its invoices to SLP by \$58,235, or the pre-discount cost of 16 switches and three access points. The Beneficiary’s discount rate for internal connections was 80 percent, resulting in total overpayment of \$46,588.¹

Internal Connections	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2835226	\$35,949	\$35,949	\$0
2834762	\$9,653	\$9,653	\$0
9835422	\$986	\$986	\$0
<u>Total</u>	<u>\$46,588</u>	<u>\$46,588</u>	<u>\$0</u>

¹ The Beneficiary acquired the three access points as part of bundled packages. We estimated the cost of this equipment at \$411 per unit based on E-rate funding amounts requested for similar equipment within North Carolina.

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement stronger controls and procedures to ensure that it:
 - a. Only requests SLP funding and reimbursement for equipment that is necessary for educational purposes.
 - b. Maintains accurate fixed asset listings.

Beneficiary Response

The Condition the audit observed is factual, but the conclusion reached is disputed.

1. *The on-site audit was performed before the Service Delivery Deadline.*
 - a. *Funding year: 2015 (July 2015 through September 2016)*
 - b. *Date of FCDL: June 6, 2015*
 - c. *Date of on-site audit: August 8-9, 2016*
 - d. *Service Delivery Deadline: September 30, 2016*
 - e. *Last day to invoice: January 30, 2017*
2. *The auditor identified switches and access points that were in a central location within the designated school for configuration prior to final deployment. At the time of the on-site audit, nearly two months remained before the Service Delivery Deadline.*
3. *The intended use of the switches in question are to provide E-rate acceptable service for educational purposes. We agree that security cameras themselves are not E-rate eligible. However, the use of E-rate discounted network infrastructure to enable these devices is eligible in the same way VoIP devices are not eligible, yet their use of network infrastructure remains eligible and does not require a cost-allocation.*

When planning to make best use of our Category 2 ERATE funding opportunity, we adopted an infrastructure upgrade and enhancement strategy to fund all schools in year 1 of the new ERATE Modernization program. This strategy took the per student funding formula and calculated our expenses based on the infrastructure needs of each school in our district. Our budgetary and filing strategy to purchase all goods and services in year 1 was based on the following USAC FAQ, Question #1. <http://usac.org/sl/about/faqs/faqs-Category-Two-Budgets.aspx#top>. As we looked at the infrastructure and connectivity needs of the schools we also placed strong consideration on expected growth over a 5 year period. The growth factors included the following:

- *Addition of classroom technology over a 6 year period (2016-2022). This increase will require additional active wired connections in every classroom in the district including but not limited to:*
 - *School renovations including new classroom additions. Additional classrooms require additional wired ports for access points, IP phones, and computers.*

- Adding 1 interactive panel per classroom (approximately 3800 district wide) for educational purposes. These devices require a wired connection to accommodate student device mirroring.
- Adding IP phones to classrooms.
- IP Based security cameras. Our switch infrastructure and growth plan included port counts to support new and additional IP based security cameras at all sites. Although security cameras are considered an ineligible service, we made the assumption that a data switch purchased with ERATE funds could be used to connect a security camera. We based our assumption on the following documentation found at <http://usac.org/sl/applicants/beforeyoubegin/eligible-services/educ-purposes.aspx>.
- With the continued addition of student mobile devices, our 5 year growth strategy also included adding additional wireless access points as needed in all schools.

We fully understand the auditor's interpretation and documented finding. The intention was to best serve our students by providing the needed connectivity upgrades. If our interpretation of the ERATE FAQ and educational purposes documentation is inaccurate, we will make necessary adjustments on future ERATE funding applications.

Auditor Response

USAC does not consider equipment or services related to security cameras to be eligible. USAC denied the appeal and maintained USAC's position that cabling drops used for security cameras were ineligible. The FCC upheld USAC's decision that these services for security cameras were ineligible. See *Streamlined Resolution of Requests Related to Action by the Universal Service Administrator*, CC Docket No. 02-6, et al., 31 FCC Rcd. 12697 (2016). Therefore, we did not make any revision to our finding.

Criteria

Finding	Criteria	Description
1	Billed Entity Applicant Reimbursement Form (FCC Form 472), OMB 3060-0856 (Jul. 2013), at 3, Block 3 (Billed Entity Certification).	<p><i>"I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to submit this Billed Entity Applicant Reimbursement Form on behalf of the eligible schools, libraries, or consortia of those entities represented on this Form, and I certify to the best of my knowledge, information, and belief, as follows:</i></p> <p>A. <i>The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form represent charges for eligible services delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486."</i></p>
1	47 C.F.R. § 54.502(a) (2015).	<i>Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance</i>

Finding	Criteria	Description
		<p><i>with paragraph (b) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms.</i></p>
1	<p><i>Schools and Libraries Universal Service Support Mechanism et. al., CC Docket No. 02-6, et. al., 29 FCC Rcd 13404, Appendix C (2014). (2015 Eligible Services List).</i></p>	<p><i>III.B.I Category One</i></p> <p><i>...Pursuant to the E-rate Modernization Order, we remove from the ESL web hosting, voice mail, email, paging, directory assistance charges, text messaging, custom calling services, direct inward dialing, 900/976 call blocking, and inside wire maintenance plans.</i></p> <p><i>...Digital transmission services and Internet access services.</i></p> <p><i>...Data plans and air cards for mobile devices are eligible only in instances when the school or library seeking support demonstrates that the individual data plans are the most cost effective option for providing internal broadband access for mobile devices as required in the E-rate Modernization Order.</i></p> <p><i>...Eligible voice services.</i></p> <p><i>Eligible voice services are subject to an annual 20 percentage point phase down of E-rate support beginning in funding year 2015, as described in the E-rate Modernization Order. The reduced discount rate for voice services will apply to all applicants and all costs for the provision of telephone services and circuit capacity dedicated to providing voice services including:</i></p> <p><i>...Wireless telephone service including cellular voice and excluding data and text messaging.</i></p>
2	<p><i>47 C.F.R. § 54.516(a) (2015).</i></p>	<p><i>(a) Recordkeeping requirements—(1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category</i></p>

Finding	Criteria	Description
2	47 C.F.R. § 54.504(a)(1)(iii) (2015).	<p><i>two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.</i></p> <p><i>(a) Filing of the FCC Form 471. An eligible school, library, or consortium that includes an eligible school or library seeking to receive discounts for eligible services under this subpart shall, upon entering into a signed contract or other legally binding agreement for eligible services, submit a completed FCC Form 471 to the Administrator.</i></p> <p><i>(1) The FCC Form 471 shall be signed by the person authorized to order eligible services for the eligible school, library, or consortium and shall include that person's certification under oath that:</i></p> <p><i>(i) The schools meet the statutory definition of “elementary school” or “secondary school” as defined in § 54.500 of this subpart, do not operate as for-profit businesses, and do not have endowments exceeding \$50 million.</i></p> <p><i>(ii) The libraries or library consortia eligible for assistance from a State library administrative agency under the Library Services and Technology Act of 1996 do not operate as for-profit businesses and whose budgets are completely separate from any school (including, but not limited to, elementary and secondary schools, colleges, and universities).</i></p> <p><i>(iii) The entities listed on the FCC Form 471 application have secured access to all of the resources, including computers, training, software, maintenance, internal connections, and electrical connections, necessary to make effective use of the services purchased.</i></p>

COTTON & COMPANY LLP



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

Attachment B

SL2016BE025

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

GALLUP MCKINLEY COUNTY SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT No. SL2016BE025



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
GALLUP MCKINLEY COUNTY SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

October 3, 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 Gallup McKinley County School District (Beneficiary), Billed Entity Number (BEN) 143257, 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, and 2) data used to calculate the discount percentage and the type and amount of services received. 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 three detailed audit findings 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 and USAC management. We did not note any other matters in our audit.

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 3 detailed audit findings discussed below.

Audit Results	Monetary Effect	USAC Recovery Action	Recommended Commitment Adjustment
<p>Finding No. 1, Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice (SPI) Form, at 3 – Service Provider Over-Invoiced SLP for Services Not Requested. The Service Provider invoiced SLP for services that the Beneficiary did not request on the Item 21 Attachment to its FCC Form 471 and that the SLP had therefore not approved for funding.</p>	\$17,220	\$0	\$0
<p>Finding No. 2, Instructions for Completing the Universal Service for Schools and Libraries Billed Entity Applicant Reimbursement (BEAR) Form, at 3 – Beneficiary Over-Invoiced SLP for Services Not Requested. The Beneficiary invoiced SLP for services that the Beneficiary did not request on the Item 21 Attachment to its FCC Form 471 and that the SLP had therefore not approved for funding.</p>	\$1,081	\$1,081	\$0

Finding No. 3, Second Report and Order, CC Docket 02-6 – Beneficiary Over-Invoiced SLP for Duplicative Services. The Beneficiary upgraded its WAN circuits but did not have the old circuits disconnected for two months; as a result, the service provider invoiced for duplicative services during that period.	\$39,818	\$39,818	\$0
Total Net Monetary Effect	<u>\$58,119</u>	<u>\$40,899</u>	<u>\$0</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the Chart below for the recovery amount. USAC will also request the Beneficiary provide copies of policies and procedures implemented to address the issues identified in this audit. In addition, USAC directs the Beneficiary and Service Provider to USAC’s website under “Reference Area” for guidance on Invoicing available at (<http://usac.org/sl/tools/reference-area.aspx>). Further, USAC recommends the Beneficiary and Service Provider 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>).

FRN	Recovery Amount
2731704	\$40,899

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 Gallup, New Mexico that serves more than 11,000 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of August 1, 2016, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$49,117	\$0
Basic Maintenance of Internal Connections	\$147,460	\$0
Internet Access	\$57,814	\$0
Telecommunications	\$2,569,140	\$1,669,009
Voice	\$144,471	\$7,683
Total	<u>\$2,968,002</u>	<u>\$1,676,692</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 15 Funding Request Numbers (FRNs).¹ We selected a sample of 6 of the 15 FRNs, which represent \$2,224,061 of the funds committed and \$1,376,837 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 used its funding effectively and whether it had adequate controls in place. We performed inquiries and inspection of documentation 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 percentage and validated the accuracy of the Category 1 and Category 2 discount percentage.

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 was posted on USAC’s website before signing contracts or executing month-to-month agreements 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 472, *Billed Entity Applicant Reimbursement (BEAR)*; FCC Form 474, *Service Provider Invoice (SPI)*; 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. Beneficiary Location

We conducted inquiries to determine whether the equipment and services were located in eligible facilities and used in accordance with the Rules. We evaluated the cost-effectiveness of the equipment and services purchased to determine whether the Beneficiary was using its funding in an effective manner.

E. Reimbursement Process

¹ The Beneficiary canceled one of the 15 FRNs during the audit period. The canceled FRN was for basic maintenance of internal connections and represented \$147,460 of the \$2,968,002 committed as of the date the audit commenced.

We obtained and examined equipment and service invoices that the Beneficiary or service provider submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary or service provider had properly invoiced USAC. Specifically, we reviewed service provider bills associated with the BEAR and SPI forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the BEAR and 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 Findings

Finding No. 1, FCC Form 474 Instructions, at 3– Service Provider Over-Invoiced SLP for Services Not Requested

Condition

CenturyLink (Service Provider) invoiced the SLP for services that the Beneficiary did not request on its Item 21 Attachment to the FCC Form 471 for FRN 2727523 and that the SLP had therefore not approved for funding. Specifically, the service provider bills supporting the SPIs contained the following unapproved recurring monthly charges:

- One 300 Mbps circuit at \$1,205 per month
- Two Quality of Service (QoS) charges at \$35 and \$65 per month, respectively

Also, the Service Provider removed additional QoS fees from amounts invoiced to the SLP but did not exclude taxes, fees, and user charges allocable to those fees. In total, the service provider's SPIs included pre-discount costs of \$19,133 for these ineligible services for the period from July 2015 through April 2016.

Cause

The Service Provider did not have adequate controls and procedures in place to ensure that SPIs submitted for reimbursement did not include costs for services that were not approved for SLP funding on the Beneficiary's Form 471.

Effect

The Service Provider overstated its invoices to SLP by \$19,133. The Beneficiary's discount rate for telecommunications services was 90 percent, resulting in total overpayment of \$17,220. However, the Service Provider provided a year end reconciliation of total eligible costs for the services covered by this FRN to the entire year's SPI billings which demonstrates that the total amount billed to the SLP for this FRN did not exceed eligible funded costs incurred by the Beneficiary. Therefore, no USAC recovery is necessary because USAC's total disbursements did not exceed the cost of eligible services provided for this FRN.

Support Type	Monetary Effect	Recommended Recovery
Telecommunications FRN 2727523	\$17,220	\$0

Recommendation

We recommend that the Service Provider incorporate procedures to review its SPIs before submitting them for reimbursement to ensure that the invoiced services have been approved for funding and that the service provider has performed sufficient analysis to support the forms.

Service Provider Response

In response to the finding, on behalf of CenturyLink Qwest Communications Company, LLC, I do agree that the 300 Mbps and QoS charges were included on a monthly basis in error, for invoicing only. However, I do not agree that there should be a recovery amount. The customer still capped and a true-up was completed at the end of the funding year. There are processes in place to review the item 21 against the billing before applying discounts. There are other AZTEC locations, so the analyst included it in error only on a monthly basis. Also, every Funding year, we have a process in place for reconciliation of accounts.

Beneficiary Response

The district agrees that this circuit speed in question for the circuit located at 105 W. Aztec was not listed on the Form 471, but the district does not believe recovery is warranted for this issue. It is the district's belief that this circuit would have been eligible for discount had the district requested a service substitution. In FCC 04-190 the FCC stated that "We conclude that in situations where a service substitution would meet the criteria now established in our rules, the appropriate amount to recover is the difference between what was originally approved for disbursement and what would have been approved, had the entity requested and obtained authorization for a service substitution." Accordingly, the district agrees with the issue, but believes recovery is not warranted.

In regards to the QoS and the taxes on the QoS the district had a separate FRN for this service and it was FRN 2732950. The district cannot control whether or not the vendor invoices USAC properly. Given the new rules relating to invoice deadline extensions the vendor will be unable to correct this problem because the invoicing deadline has passed. If a monetary impact is identified the vendor will simply rebill this service back to the applicant. The district believes it is unfair to penalize the district for an error made by the service provider. Also, it is unclear how the auditor identified the taxes associated with the QoS. Presumably they simply took a prorated portion of the charges, but it is unclear if the taxes apply equally to the QoS charges. We suggest the audit firm work with the vendor to determine if this methodology is correct.

Additionally, the district believes that the monetary effect for the QoS and taxes should be the difference between what was paid and what should have been paid had the vendor invoiced the correct FRN. Using this calculation the monetary effect would simply be 20%

of these charges. The service provider invoiced an FRN with a 90% discount instead of the correct FRN which has a 70% discount, thus the 20% in over-disbursement. Based on the preliminary audit report the district believes that the appropriate amount to recover is \$293.22.

As stated above the charges for the circuit at 105 W Aztec would have been eligible had a service substitution been requested, so in accordance with FCC Rules and Orders recovery is not warranted for this issue. For the QoS the district agrees the vendor did bill the services against the incorrect FRN. Had the vendor billed the QoS on FRN 2732950 the district would have received a credit of \$1,026.27 instead of the \$1,319.49 credit it received on FRN 2727523. Therefore, the district agrees that the appropriate recovery amount is \$293.22 (\$1,319.49 less \$1,026.27). The district requests that the recovery amount be reduced to this amount and that the vendor be given adequate time to properly re-invoice USAC to correct this minor issue.

<i>Service Element:</i>	<i>Cost:</i>
<i>QoS Fee</i>	\$ 1,000.00
<i>Taxes Associated with QoS</i>	\$ 506.32
<i>Total Before Pre-K Adjustment</i>	\$ 1,506.32
<i>Pre-K Adjustment (2.67%)</i>	\$ (40.22)
<i>Total Eligible Charges</i>	<i>\$ 1,466.11</i>
<i>Amount Disbursed by USAC on FRN 2727523 (90%)</i>	<i>\$ 1,319.49</i>
<i>Amount that should have been Disbursed on FRN 2732950 (70%)</i>	<i>\$ 1,026.27</i>
<i>Improper Disbursement</i>	<i>\$ 293.22</i>

Cotton & Company Additional Comments

After the audit, the Service Provider supplied a reconciliation that included additional SPIs consistent with eligible costs that were tested during the audit period. SLP processed the SPIs, which paid the Service Provider only up to the FRN’s approved commitment. Based on a review of the reconciliation provided with the Service Provider’s response to this finding, we reduced the recommended recovery amount to \$0. While we have concluded there was no overpayment to recover for the funding year, the Service Provider should review its invoices prior to submission to SLP, to ensure that they only include costs for services approved for SLP funding.

Finding No. 2, FCC Form 472 Instructions – Beneficiary Over-Invoiced SLP for Services Not Requested

Condition

The Beneficiary invoiced the SLP for services that the Beneficiary did not request on its Item 21 Attachment to the FCC Form 471 for FRN 2731704 and that the SLP had therefore not approved for funding. Specifically, the BEAR that the Beneficiary submitted for the first six months of the funding year included \$1,201 in monthly recurring charges for an unapproved 56 Kbps circuit.

Cause

The Beneficiary did not have adequate controls and procedures in place to ensure that BEARs submitted for reimbursement did not include costs for services that were not approved for SLP funding on the Beneficiary’s Form 471.

Effect

The Beneficiary overstated its invoices to SLP by \$1,201. The Beneficiary’s discount rate for telecommunications services was 90 percent, resulting in total overpayment of \$1,081.

Support Type	Monetary Effect	Recommended Recovery
Telecommunications FRN 2731704	\$1,081	\$1,081

Recommendations

We recommend that:

1. USAC management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary implement procedures to ensure that its BEARs only include requests for reimbursement for amounts that are approved and eligible for funding.

Beneficiary Response

Based on information from the vendor, this charge is related to a meet me point that connects the Frontier Network into the Century Link Cloud. Without this connection the schools on the Frontier network would be able to communicate with each other, but they would not be able to connect back to the district data center and would not have access to the Internet. The Form 471 for 2015 did not provide clear guidance for how this type of connection should be identified on the Form 471. This is clearly an eligible service and an underlying componenet [sic] of providing the service requested on this FRN. Because of the lack of clarity in the instructions the district requests that this finding be removed from the audit report. The dollars associated with this service componenet [sic] were included in the fudning request.

If USAC is unwilling to remove this finding from the report the district does not believe recovery is warranted. It is the district’s belief that this cross connect charge would have been eligible for discount had the district requested a service substitution. In FCC 04-190 the FCC stated that “We conclude that in situations where a service substitution would meet the criteria now established in our rules, the appropriate amount to recover is the difference between what was originally approved for disbursement and what would have been approved, had the entity requested and obtained authorization for a service substitution.” Therefore, the district does not believe recovery is warranted for this issue.

Cotton & Company Additional Comments

The Beneficiary did not include funding for the cost of this connection service on its Form 471, thus we made no change to the report finding and recommended recovery.

Finding No. 3, Second Report and Order – Beneficiary Over-Invoiced SLP for Duplicative Services

Condition

The Beneficiary upgraded nine WAN lines from 40 Mbps to 100 Mbps in December 2015 but did not request that the Service Provider disconnect the old circuits until January 22, 2016. As a result, the Service Provider billed the Beneficiary for both sets of circuits in December 2015 and January 2016. The Beneficiary included pre-discount charges of \$45,348 for its December 2015 usage of the 40 Mbps lines in its February 2016 BEAR for FRN 2731704. The Beneficiary included charges for its December 2015 usage of the 100 Mbps lines and all January 2016 charges in a second BEAR for this FRN, which it submitted after the audit announcement date and which is therefore outside the scope of this audit.

Cause

The Beneficiary initially retained the 40 Mbps lines as backup equipment and so did not immediately request that the service provider disconnect the old lines. The Beneficiary then did not identify and exclude the duplicative costs when preparing its BEARs.

Effect

The Beneficiary overstated its December 2015 invoices to SLP by pre-discount costs of \$44,242 (the \$45,348 incurred for the duplicative lines less \$1,106 that the Beneficiary excluded as related to ineligible pre-kindergarten services). The Beneficiary’s discount rate for internal connections was 90 percent, resulting in total overpayment of \$39,818.

Support Type	Monetary Effect	Recommended Recovery
Telecommunications FRN 2731704	\$39,818	\$39,818

Recommendations

We recommend that:

1. USAC management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary implement procedures to ensure that its BEARs only include requests for reimbursement for amounts that are approved and eligible for funding.

Beneficiary Response

The district does agree that there was a short period of time where USAC was invoiced for both sets of circuits. When transitioning from one service to another it is not reasonable to expect the district to do a hard cut over on the day the new circuit is turned up. Given, the district's reliance on its WAN it would be irresponsible to adopt this type of approach. It should be noted that the bills from the service provider are very hard to determine the specific services ordered. Shortly after the new circuits were turned up the vendor changes their billing system which made it much easier to determine the specific services being ordered. The district believes the FCC should provide clear guidance on how transitional services should be handled from an E-rate perspective and should allow districts to have a reasonable transition period to move from one service to another. The district agrees with the finding, but does intend to appeal any potential recovery to the FCC.

Criteria

Finding	Criteria	Description
1	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice (SPI) Form (FCC Form 474), OMB 3060-0856 (July 2013).	<p>Block 2: Columns (6) through (13)</p> <p><i>The information requested in the following columns should be completed for the eligible services in each FRN for which the service provider with the SPIN set forth in Item (2) has delivered services on or after the effective date of discounts as reported in the FCC Form 486 Notification Letter, consistent with the FCDL and for which the service provider has billed the applicant.</i></p> <p><i>Column (11) - Total (Undiscounted) Amount for Service per FRN. This column represents the total undiscounted monthly and one-time charges for all eligible services on the individual invoice or bill issued to the customer. This column represents the total price for eligible service before any eligible discount is applied. The total undiscounted amount may include all reasonable associated charges, such</i></p>

Finding	Criteria	Description
		<p><i>as federal and state taxes, that are incurred by the customer in obtaining services.</i></p> <p>Block 3: Service Provider Certifications and Signature <i>A person authorized to sign this form must be responsible for the service provider’s preparation and submission of invoice forms to seek reimbursement from the schools and libraries universal service support mechanism. This person must be able to certify to the accuracy of the invoice forms and their compliance with FCC rules. The authorized person must certify under penalty of perjury, to the best of his/her knowledge, information and belief, that:</i></p> <p><i>A. I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.</i></p>
1,2	<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>

Finding	Criteria	Description
2	<p>Instructions for Completing the Universal Service for Schools and Libraries Billed Entity Applicant Reimbursement (BEAR) Form (FCC Form 472), (July 2013).</p>	<p><i>The Billed Entity must sign the Certification and declare under penalty of perjury that:</i></p> <p><i>(A) The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form represent charges for eligible services delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.</i></p> <p><i>(B) The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form were already billed by the service provider and paid by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities.</i></p> <p><i>(C) The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form are for eligible services approved by the fund administrator pursuant to a Funding Commitment Decision Letter.</i></p> <p><i>(D) I recognize that I may be audited pursuant to this application and will retain for at least five years (or whatever retention period is required by the rules in effect at the time of this certification), after the last day of service delivered in this funding year any and all records that I rely upon to fill in this form.</i></p> <p><i>(E) I certify that, in addition to the foregoing, this Billed Entity is in compliance with the other rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments. I acknowledge that failure to comply with the rules and orders governing the schools and libraries universal service support program could result in civil or criminal prosecution by law enforcement authorities.</i></p>
3	<p><i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further Notice of</i></p>	<p><i>22. Funding of Duplicative Services. In the Universal Service Order, the Commission indicated that an applicant's request for discounts should be based on the reasonable needs and resources of the applicant, and bids for services should be evaluated based on cost effectiveness. Pursuant to this requirement, the Administrator has denied discounts for duplicative services. Duplicative services are services that deliver the same functionality to the same population in the same location during the same period of time. We emphasize</i></p>

Finding	Criteria	Description
	<p>Proposed Rulemaking, 18 FCC Rcd. 9202, 9209-11 at para. 22-24 (April 30, 2003).</p>	<p><i>that requests for discounts for duplicative services will be rejected on the basis that such applications cannot demonstrate, as required by our rules, that that they are reasonable or cost effective.</i></p> <p>23. <i>We find that the use of discounts to fund duplicative services contravenes the requirement that discounts be awarded to meet the “reasonable needs and resources” of applicants. We find that requests for discounts for duplicative services are unreasonable because they impact the fair distribution of discounts to schools and libraries. The schools and libraries mechanism of the universal service fund is capped at \$2.25 billion dollars. Under our rules, when total demand exceeds the cap, discounts for Priority Two services (internal connections) are awarded after all Priority One requests are satisfied, beginning with the most economically disadvantaged schools and libraries as determined by the schools and libraries discount matrix. Total demand for discounts from the schools and libraries program has exceeded the funding cap in the past two funding years and we expect this trend to continue. Thus, funding duplicative services would operate to award discounts to applicants higher on the matrix twice for the same services, while some others, because of their lower rank on the matrix, could not receive discounts for the same service because the Priority Two funds available under the cap had been exhausted.</i></p> <p>24. <i>In addition, we find that it is inconsistent with the Commission’s rules to deliver services that provide the same functionality for the same population in the same location during the same period of time. We believe that requests for duplicative services are not consistent with the Commission’s rules regarding competitive bidding, which require applicants to evaluate whether bids are cost effective. In the Universal Service Order, the Commission stated that price is the primary of several factors to be considered. Thus, applicants must evaluate these factors to determine whether an offering is cost effective. We find that it is not cost effective for applicants to seek discounts to fund the delivery of duplicative services. Therefore, we conclude that this rule can be violated by the delivery of services that provide the same functionality for the same population in the same location during the same period of time. We recognize</i></p>

Finding	Criteria	Description
		<i>that determining whether particular services are functionally equivalent may depend on the particular circumstances presented. In addition, we amend section 54.511(a) of our rules to make clear that applicants must consider whether the service is cost effective.(footnotes omitted)</i>

COTTON & COMPANY LLP



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

Attachment C

SL2016BE046



Charter Schools USA
Audit ID: SL2016BE046

(BEN: 16056854)

*Performance audit for the Universal Service Schools and
Libraries Program Disbursements related to Funding
Year 2015 as of July 15, 2016*

Prepared for: Universal Service Administrative Company

As of Date: September 27, 2017

KPMG LLP
1225 17th Street
Suite 800
Denver, CO 80202

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KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

EXECUTIVE SUMMARY

September 27, 2017

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

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to the Charter Schools USA, Billed Entity Number (“BEN”) 16056854, (“CSUSA” or “Beneficiary”) for disbursements of \$3,730,192 and commitments of \$4,687,177 made from the federal Universal Service Schools and Libraries Program related to the twelve-month period ended June 30, 2016, as of July 15, 2016 (hereinafter “Funding Year 2015”). Our work was performed during the period from August 17, 2016 to September 27, 2017, and our results are as of September 27, 2017.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2011 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary’s compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program (“E-rate Program”) set forth in 47 C.F.R. Part 54 of the Federal Communications Commission’s (“FCC”) Rules as well as other program requirements (collectively, the “Rules”) that determined the Beneficiary’s eligibility and resulted in commitments of \$4,687,177 and disbursements of \$3,730,192 made from the E-rate Program related to Funding Year 2015. Compliance with the Rules is the responsibility of the Beneficiary’s management. Our responsibility is to evaluate the Beneficiary’s compliance with the Rules based on our audit.

As our report further describes, KPMG identified three findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to Funding Year 2015 were \$293,317 higher than they would have been had the amounts been reported properly.

In addition, we also noted one other matter that we have reported to the management of the Beneficiary in a separate letter dated September 27, 2017.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC, and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

List of Acronyms

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
CIPA	Children’s Internet Protection Act
CSUSA	Charter Schools USA
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 472	Billed Entity Applicant Reimbursement Form
FCC Form 474	Service Provider Invoice Form
FCC Form 479	Certification of Compliance with the Children’s Internet Protection Act
FCC Form 486	Receipt of Service Confirmation and Children’s Internet Protection Act and Technology Plan Certification Form
FCDL	Funding Commitment Decision Letter
FRN	Funding Request Number
Funding Year 2015	The twelve-month period from July 1, 2015 to June 30, 2016 during which E-rate Program support is provided (as of July 15, 2016)
Item 21	Description of the products and services for which discounts are sought in the FCC Form 471
MIBS	Managed Internal Broadband Services
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund
WAP	Wireless Access Point

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery
<p><u>SL2016BE046-F01: Service Provider Over-Invoiced SLP for Ineligible Services and Equipment</u> – The Service Provider requested reimbursement for ineligible services, for eligible services under the incorrect FRN, failed to apportion and apply credits, and had mathematical errors in its documentation supporting reimbursement requests.</p>	\$ 252,757	\$ 252,757
<p><u>SL2016BE046-F02: Equipment Not Used at the Requested Location for the Requested Purpose</u> – Internal connections equipment was not installed and in use at the time of the audit.</p>	\$ 25,731	\$ 25,731
<p><u>SL2016BE046-F03: Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills</u> – Unit prices for equipment provided per the Service Provider bills and contract between the Beneficiary and the Service Provider were less than the unit price per the SPI reimbursement requests submitted to USAC.</p>	\$ 14,829	\$ 14,829
Total Net Monetary Effect	\$ 293,317	\$ 293,317

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. Please see the chart below for FRN recovery amounts. USAC will also request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

In addition, USAC directs the Beneficiary and Service Provider to USAC’s website under “Reference Area” for guidance on “Invoicing – Service Providers” available at (<http://usac.org/sl/tools/reference-area.aspx>) and “Service Delivery” available at <http://www.usac.org/sl/applicants/before-youre-done/delivery-extension.aspx>.

Further, USAC recommends the Beneficiary and Service Provider 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>.

Recovery Action	Finding #1	Finding #2	Finding #3	Finding Total
All 54 FRN’s Referenced Under Finding No. 1 Associated With FCC Form 996313	\$252,757			\$252,757
FRN’s 2853588, 2853590, 2853521, 2853541, 2853543, 2853551, 2853554, 2853566, and 2853576		\$25,731		\$25,731
FRN’s 2853598, 2853623, and 2853628			\$14,829	\$14,829
Total				\$293,317

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the USF through four support mechanisms: High Cost; Low Income; Rural Health Care; and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations or advocate regarding any matter of universal service policy.

The Schools and Libraries (E-rate) Program is one of four support mechanisms funded through a Universal Service fee charged to telecommunications companies that provide interstate and/or international telecommunications services. USAC administers the USF at the direction of the FCC; USAC's SLD administers the E-rate Program.

The E-rate Program provides discounts to assist eligible schools and libraries in the United States to obtain affordable telecommunications equipment and/or services and Internet access. Two categories of services are funded. Category One services include voice services, data transmission services and Internet access. Category Two services include internal connections, basic maintenance of internal connections (BMIC), and managed internal broadband services (MIBS). Eligible schools and libraries may receive 20% to 90% discounts for Category One eligible services and discounts of 20% to 85% for Category Two eligible services depending on the type of service, level of poverty and the urban/rural status of the population served. Eligible schools, school districts and libraries may apply individually or as part of a consortium.

Beginning in Funding Year 2015, the discount rate for all voice services will be reduced by 20%, and shall be reduced further by an additional 20% every subsequent funding year until Funding Year 2019 when voice services will no longer be funded through the E-rate Program. This reduction applies to all expenses incurred for providing telephone services and increasing circuit capacity for providing dedicated voice services.

The E-rate Program supports connectivity – the conduit or pipeline for communications using telecommunications services and/or the Internet. The school or library is responsible for providing additional resources such as the end-user equipment (computers, telephone handsets, and modems), software, professional development, and the other resources that are necessary to fully enable and utilize such connectivity.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$4,687,177 and disbursements of \$3,730,192 made for Funding Year 2015.

Beneficiary Overview

The Charter Schools USA (BEN# 16056854) is a charter school system headquartered in Fort Lauderdale, Florida that serves over 50,000 students in eight states.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2015 by service type:

Service Type	Amount Committed	Amount Disbursed
Telecommunications Services (Data Transmission Services)	\$ 877,240	\$ 689,844
Internet Access	\$ 1,693,117	\$ 1,247,668
Voice Services	\$ 317,644	\$ 176,166
Internal Connections	\$ 1,799,176	\$ 1,616,514
Total	\$ 4,687,177	\$ 3,730,192

Source: USAC

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2015. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2015 as of July 15, 2016.

The committed total represents two FCC Form 471 applications with 295 FRNs. We selected 134 FRNs, which represent \$3,755,741 of the funds committed and \$3,079,122 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2015 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$4,687,177 and disbursements of \$3,730,192 made from the E-rate Program for Funding Year 2015. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2015 and disbursements received, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, physical verification of selected equipment purchased and maintained, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for Funding Year 2015.

KPMG identified the following areas of focus for this performance audit:

1. Application Process
2. Competitive Bid Process
3. Calculation of the Discount Percentage
4. Invoicing Process
5. Site Visits
6. Reimbursement Process
7. Record Keeping
8. Final Risk Assessment

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary for Funding Year 2015 and received by the Beneficiary for Funding Year 2015. The procedures conducted during this performance audit include the following:

1. Application Process

We obtained an understanding of the Beneficiary's processes relating to the application and use of E-rate Program funds. Specifically, for the FRNs audited, we examined documentation to support its effective use of funding. We also used inquiry to determine if any individual schools or entities related to the Beneficiary are receiving USAC funded services through separate FCC Forms 471 and FRNs.

2. Competitive Bid Process

For the FRNs audited, we obtained and examined documentation to determine whether all bids received were properly evaluated and that price of the eligible services was the primary factor considered. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected service providers. We reviewed the service provider contracts to determine whether they were properly executed. We evaluated the services and equipment requested and purchased for cost effectiveness as well.

3. Calculation of the Discount Percentage

For the FRNs audited, we obtained and examined documentation to understand the methodology used by the Beneficiary to calculate the discount percentage. We also obtained and examined documentation supporting the discount percentage calculation and determined if the calculations were accurate.

4. Invoicing Process

For the FRNs audited, we obtained and examined invoices for which payment was disbursed by USAC to determine that the equipment and services claimed 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.

5. Site Visits

For the FRNs audited, we performed a physical verification for equipment selected to evaluate the location and use of equipment and services to determine whether it was delivered and installed, located in eligible facilities, and utilized in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. We also evaluated the equipment and services purchased by the Beneficiary to determine whether funding was used in an effective manner.

6. Reimbursement Process

For the FRNs audited, we obtained and examined invoices submitted for reimbursement for the services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, we reviewed invoices associated with the SPI forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the SPI forms and

corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate Program Eligible Services List.

7. Record Keeping

We determined whether the Beneficiary's record retention policies and procedures are consistent with the E-rate Program rules. Specifically, we determined whether the Beneficiary was able to provide the documentation requested in the audit notification, for the FRNs audited, as well as retained and provided the documentation requested in our other audit procedures.

8. Final Risk Assessment

Based on the performance of the above audit procedures for the sampled FRNs, we considered any non-compliance detected during the audit and its effect on the FRNs excluded from the initial sample. We also considered whether any significant risks identified during the audit that may not have resulted in exceptions on the FRNs audited could affect the other FRNs. KPMG, with consultation from USAC, concluded that expansion of the scope of the audit was not warranted.

RESULTS

KPMG’s performance audit results include a listing of findings, recommendations and Beneficiary’s responses with respect to the Beneficiary’s compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2015 commitments and disbursements made from the E-rate Program.

Findings, Recommendations and Beneficiary Responses

KPMG’s performance audit procedures identified three findings. The findings, including the condition, cause, effect, recommendation, Beneficiary responses and Service Provider responses are as follows:

Finding No.	<u>SL2016BE046-F01: Service Provider Over-Invoiced SLP for Ineligible Services and Equipment</u>
Condition	<p>The following conditions were identified during our testing of Service Provider invoices associated with Telecommunications Services, Internet Access and Voice Services FRNs:</p> <ol style="list-style-type: none"> 1. Estimated costs were used to determine the SPI reimbursement requests to USAC. 2. Ineligible charges, including network firewall charges, minimum monthly fee charges, and Managed Network Security Cloud Advanced Charges, were incorrectly included in SPI reimbursement requests submitted to USAC. 3. Charges for eligible services were billed under the incorrect FRN. 4. Service Provider credits were not apportioned and applied to SPI reimbursement requests submitted to USAC. 5. Documentation supporting SPI reimbursement requests contained mathematical errors.
Cause	The Beneficiary and Service Provider did not have an adequate review process in place to ensure the accuracy of the SPI reimbursement requests submitted to USAC.

Effect

The monetary effect of this finding is an over disbursement of \$252,757 in total for 50 FRNs (calculated as the undiscounted cost totaling \$315,946 multiplied by the discount rate of 80 percent). The table below details the monetary impact by FRN.

FRN	Reimbursement Received	Eligible Reimbursement per Service Provider Bill	Recommended Recovery
2827700	\$ 31,066	\$ 27,170	\$ 3,896
2811219	\$ 34,037	\$ 26,304	\$ 7,733
2811220	\$ 39,030	\$ 30,314	\$ 8,716
2796920	\$ 25,620	\$ 18,340	\$ 7,280
2797073	\$ 53,922	\$ 18,336	\$ 35,586
2811255	\$ 25,215	\$ 17,923	\$ 7,292
2811206	\$ 27,907	\$ 22,021	\$ 5,886
2811215	\$ 29,314	\$ 26,172	\$ 3,143
2811222	\$ 49,159	\$ 41,103	\$ 8,056
2825099	\$ 29,739	\$ 23,631	\$ 6,108
2811241	\$ 17,637	\$ 15,917	\$ 1,720
2811228	\$ 31,330	\$ 24,433	\$ 6,897
2811234	\$ 32,289	\$ 30,269	\$ 2,020
2796795	\$ 15,848	\$ 13,674	\$ 2,174
2811243	\$ 19,629	\$ 17,355	\$ 2,274
2797085	\$ 16,538	\$ 16,245	\$ 293
2811240	\$ 52,695	\$ 33,300	\$ 19,395
2797071	\$ 16,752	\$ 16,229	\$ 523
2796789	\$ 16,842	\$ 15,866	\$ 976
2825114	\$ 16,752	\$ 16,334	\$ 418
2811221	\$ 12,094	\$ 8,951	\$ 3,143
2811239	\$ 33,313	\$ 26,326	\$ 6,987
2811230	\$ 12,194	\$ 10,820	\$ 1,374
2797072	\$ 17,179	\$ 16,459	\$ 720
2811226	\$ 33,848	\$ 26,717	\$ 7,131

FRN	Reimbursement Received	Eligible Reimbursement per Service Provider Bill	Recommended Recovery
2797099	\$ 17,448	\$ 17,373	\$ 75
2811238	\$ 32,783	\$ 25,447	\$ 7,336
2765615	\$ 33,890	\$ 26,737	\$ 7,152
2796944	\$ 17,664	\$ 17,525	\$ 139
2744412	\$ 12,836	\$ 9,370	\$ 3,466
2822742	\$ 34,810	\$ 29,305	\$ 5,504
2811235	\$ 13,670	\$ 10,003	\$ 3,666
2811256	\$ 14,057	\$ 10,044	\$ 4,012
2811218	\$ 55,743	\$ 47,724	\$ 8,019
2744404	\$ 7,060	\$ 3,644	\$ 3,416
2822746	\$ 19,768	\$ 12,309	\$ 7,459
2822468	\$ 19,459	\$ 18,130	\$ 1,329
2811534	\$ 14,889	\$ 11,097	\$ 3,792
2811207	\$ 36,497	\$ 32,577	\$ 3,919
2811208	\$ 15,042	\$ 11,153	\$ 3,889
2811209	\$ 36,497	\$ 27,752	\$ 8,745
2811214	\$ 15,042	\$ 11,811	\$ 3,230
2811216	\$ 15,042	\$ 13,206	\$ 1,835
2811225	\$ 36,497	\$ 30,258	\$ 6,239
2811227	\$ 58,288	\$ 58,063	\$ 226
2811233	\$ 15,042	\$ 11,301	\$ 3,740
2811257	\$ 23,460	\$ 23,177	\$ 283
2811259	\$ 15,002	\$ 12,010	\$ 2,992
2827695	\$ 19,747	\$ 14,345	\$ 5,402
2822749	\$ 36,497	\$ 29,346	\$ 7,151
Total			\$ 252,757

Recommendation The Beneficiary and Service Provider should enhance their internal review processes to ensure only actual costs for eligible services incurred are included in SPI reimbursement requests submitted to USAC, that requests for reimbursement are submitted under the correct FRN, that all credits received from the Service Provider are appropriately apportioned and applied to the reimbursement requests,

**Beneficiary
Response**

and calculations to support amounts requested for reimbursement are free from mathematical errors.

Condition 1: Charter Schools USA requested the SPI reimbursement method (USAC authorized method). It is up to the Service Provider to apply the discounts according to the approved amounts. The method used by Windstream is consistent with the USAC authorized method and is true up at the end of year based upon actual numbers.

Condition 2: CSUSA applied for E-Rate funding for bundled internet access services, including network firewall services, under Category 1 of the Schools and Libraries Eligible Services List (ESL) for Funding Year 2015 highlighted in the FCC's DA 14-1556, appendix C, page 4.

Per Windstream's response [firewall] charges are a standard bundled component included in the data and internet services charges as eligible for reimbursement under Category 1. This makes the firewall charges eligible under Category 1.

On August 12, 2015 at 11:24am, CSUSA submitted an invoice from Windstream for the internet access charges on FRN 1811238, which included the firewall charges broken out (see attachment No. 3). The PIA reviewer approved and USAC confirmed these as legitimate charges when USAC issued the funding commitment decision letter dated October 1, 2015.

On December 6, 2016, Windstream Communications requested and received confirmation from Mick Kraft that CSUSA's firewall charges were allowable.

Given the aforementioned evidence and approvals, the audit findings related to CSUSA's firewall services are incorrect; these are legitimate and eligible charges.

CSUSA does not contest the findings related to the minimum monthly fee charges and managed network security cloud advanced charges.

Conditions 3 to 5: Please, reference the service provider response.

**Service Provider
Response**

Condition 1: Windstream's method for determining discounts to be placed on an applicant's bill is to identify the E-rate eligible items and take a 3-month average. Windstream will take the maximum funding amount and divide by 12. If the applicant's average billing of E-rate eligible services is greater than the maximum monthly funding amount, the maximum funding amount is placed on the bill. If the 3-month average E-rate eligible spend is less than the monthly funding amount, then the 3-month average is used and a trueup is done at the end of the year. Both methods ensure the applicant gets the full amount of eligible funding.

Condition 2: Windstream contacted Mick Kraft at USAC to discuss the Windstream firewall solution on December 6, 2016 and received response the same day. Per Mick Kraft's response: "From the ESL for FY2015, and depending on the fact that this is a component of the Internet Access Service, it would appear that the below is valid." Windstream provides the firewall as a standard component of the Internet access and is not provided by other vendors. Windstream's firewall is part of a bundled offering which is eligible for E-rate services.

Condition 3: There are at least three FRNs for each Windstream account. Breakdown of FRNs were voice, data, and telecommunications. Data and telecommunications have the same discount percentage. The misidentification

between data and telecommunications does not impact the amount of reimbursement requested.

Condition 4: Windstream invoices USAC based upon the dollar amount of discount placed upon the applicant's bill (which is calculated based upon eligible services) per FRN.

Condition 5: This was due to clerical error. Once [the] auditor identified the clerical error these issues were resolved.

KPMG Response

Condition 1: While the SPI is a USAC approved method for requesting program funds, reimbursement requests should only be made for actual costs incurred.

Condition 2: Appendix C of the Schools and Libraries Eligible Services List (ESL) for Funding Year 2015 (DA 14-1556) states "firewall protection may not be provided by a vendor other than the Internet access provider and may not be priced out separately." A review of Service Provider invoices disclosed distinctly separate charges with the description "Network Firewall Charge." These costs were itemized separately from the bundled services invoiced by the Service Provider.

Furthermore, USAC Technical Services reviewed the Service Provider invoices containing the questioned firewall costs on December 16, 2016 and confirmed their ineligibility for Category One reimbursement under the SLP.

Condition 3: Reimbursement requests should contain only those costs associated with providing approved services under the FRN in which reimbursement is requested. Shifting service costs from fully expended FRNs to those with available funds is not permitted.

Condition 4: Service credits provided by the Service Provider to the Beneficiary were not passed along to USAC.

Condition 5: No response necessary as the Service Provider concurred with the audit finding.

Finding No.

SL2016BE046-F02: Equipment Not Used at the Requested Location for the Requested Purpose

Condition

Eligible Category Two equipment for Funding Year 2015 was required to be procured and installed no later than September 30, 2016. A total of 52 WAPs at nine different schools procured with E-rate Program funding had not been placed into service by the deadline and no service extension was submitted by the Beneficiary to USAC. The table below details the impacted FRNs and locations, as well as the number of WAPs that had not been installed.

FRN	Location	Uninstalled WAPs
2853588	Cherokee Charter Academy	5
2853590	Coweta Charter Academy at Senoia	6
2853521	Hollywood Academy of Arts & Science	6
2853541	Renaissance Charter School at Cooper City	3
2853543	Renaissance Charter School at Coral Springs	11
2853551	Renaissance Charter School at Pines	1
2853554	Renaissance Charter School at Plantation	3
2853566	Renaissance Charter School at University	7
2853576	Renaissance Elementary Charter School	10
Total Number of Uninstalled WAPs		52

Cause Per the Beneficiary, the installation project was delayed due to personnel constraints and certain unforeseen challenges such as locating and uninstalling older access points that had been installed above the ceilings.

Effect The monetary effect of this finding is an over disbursement of \$25,731 in total for the nine FRNs (calculated as the cost of unused equipment totaling \$32,164 multiplied by the discount rate of 80 percent). The table below details the monetary impact by FRN:

FRN	Undiscounted Cost	Discounted Cost
2853588	\$ 3,093	\$ 2,474
2853590	\$ 3,711	\$ 2,969
2853521	\$ 3,711	\$ 2,969
2853541	\$ 1,856	\$ 1,484
2853543	\$ 6,804	\$ 5,443
2853551	\$ 619	\$ 495
2853554	\$ 1,856	\$ 1,484
2853566	\$ 4,330	\$ 3,464
2853576	\$ 6,185	\$ 4,948
Total	\$ 32,164	\$ 25,731

Recommendation The Beneficiary should submit a request to USAC to extend the service delivery deadline when there is a delay with the installation process associated with E-rate Program products and services.

Beneficiary Response Charter Schools USA's request on these FRNs that included the installation of the wireless access points was completed by May 30, 2016. All additional wireless access points were scheduled to be installed by CSUSA staff and not included in ModComp's agreement for wireless access points and installation. Furthermore, the

criteria relied upon by the auditor does not support the auditor’s findings (see criteria table found in KPMG’s audit results).

KPMG Response The Beneficiary contracted with the Service Provider to install a portion of the WAPs procured with E-rate Program funding, which were installed and in service during KPMG’s on-site visits. Additional WAPs purchased with E-rate Program funds were not placed in service at the time of the audit. Per the *Third Report and Order and Second Notice of Proposed Rulemaking* (listed in the criteria section below) recipients of E-rate Program funding are “expected to use all equipment purchased with universal service discounts at the particular location, for the specified purpose for a reasonable period of time” and prohibits “transfer of equipment for a period of three years after purchase.”

Finding No. **SL2016BE046-F03: Beneficiary Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills**

Condition For FRNs 2853598, 2853623, and 2853628, the unit prices for equipment provided per the Service Provider bills and the contract between the Beneficiary and Service Provider were less than the unit prices per the SPI reimbursement requests submitted to USAC.

Cause The Beneficiary and Service Provider do not have a robust process to review and reconcile the undiscounted costs per the Service Provider bills to the contract and reimbursement requests submitted to USAC .

Effect The monetary effect of this finding is an over disbursement of \$14,829, which represents the differences in discounted costs between the reimbursement requests and Service Provider bills and contract. See tables below for monetary effect information by FRN.

FRN 2853598

Equipment	Reimbursement Requested	Actual Cost per Service Provider Bill and Contract	Excess Reimbursement
Cabling	\$ 5,525	\$ 5,402	\$ 123

FRN 2853623

Equipment	Reimbursement Requested	Actual Cost per Service Provider Bill and Contract	Excess Reimbursement
Access Points	\$ 10,391	\$ 7,422	\$ 2,969
Installation	\$ 1,838	\$ 1,313	\$ 525
Cabling	\$ 3,975	\$ 3,859	\$ 117
Total	\$ 16,205	\$ 12,594	\$ 3,611

FRN 2853628

Equipment	Reimbursement Requested	Actual Cost per Service Provider Bill and Contract	Excess Reimbursement
Cabling	\$ 7,515	\$ 7,460	\$ 55
Switches	\$ 12,880	\$ 1,840	\$ 11,040
Total	\$ 20,395	\$ 9,300	\$ 11,095

Recommendation The Beneficiary and Service Provider should implement an effective review process to ensure that the costs included in the SPI reimbursement requests are consistent with the Service Provider bills and contract.

Beneficiary Response CSUSA has an internal review process in place to check orders and ensure corrections of the bills and contracts. However, CSUSA is unable to check/verify submissions by vendors to USAC for reimbursements. The service provider reviewed its charges against the three FRN's in question and the service provider agrees with the finding.

Service Provider Response In regards to these FRNs, Modcomp agrees with the audit findings for the over disbursement of \$14,829 and is prepared to refund this amount.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. Section 54.502(a) (2015).	"Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms."
#1	<i>Schools and Libraries' Eligible Services List for Funding Year 2015, Oct. 2014 at 4.</i> ¹	"Firewall protection may not be provided by a vendor other than the Internet access provider and may not be priced out separately."

¹ *Schools and Libraries Universal Service Support Mechanism et al.*, CC Docket No. 02-6, GN Docket No. 09-51, WC Docket No. 13-184, Order, 29 FCC Rcd. 13404, 13420 (2014) (2015 Eligible Services List).

Finding	Criteria	Description
#2	<i>Third Report and Order and Second Notice of Proposed Rulemaking</i> ²	“Recipients of support are expected to use all equipment purchased with universal service discounts at the particular location, for the specified purpose for a reasonable period of time.” The FCC “decline[d] to institute useful life criteria for equipment purchased with universal service funds” and “address[ed] this issue by adopting a general prohibition on the transfer of equipment for a period of three years after purchase.”
#3	47 C.F.R. Section 54.511(b) (2015).	“Providers of eligible services shall not submit bids for or charge schools, school districts, libraries, library consortia, or consortia including any of these entities a price above the lowest corresponding price for supported services, unless the Commission, with respect to interstate services or the state commission with respect to intrastate services, finds that the lowest corresponding price is not compensatory.”
#3	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Annual Certification Form (FCC Form 473), OMB 3060-0856, (July 2013) at 3.	Service Providers must certify on the FCC Form 473 that: “Item (9) – I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider contain requests for universal service support for services which have been billed to the Service Provider’s customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal service support by the fund administrator.”
#3	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice Form (FCC Form 474), OMB 3060-0856 (July 2013) at 3.	“Block 2: Column (6) through (13): The information requested in the following columns should be completed for the eligible services in each FRN for which the service provider with the SPIN set forth in Item (2) has delivered services on or after the effective date of discounts as reported in the FCC Form 486 Notification Letter, consistent with the FCDL and for which the service provider has billed the applicant.”

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified three findings, Service Provider Over-Invoiced SLP for Ineligible Services and Equipment, Equipment Not Used at the Requested Location for the Requested Purpose, and Beneficiary Over-Invoiced

² *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, 18 FCC Rcd. 26912, 26923, paras. 26, 30 & n.29 (2003).

SLP for Amounts Not Reconciled to the Service Provider Bills. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

The combined estimated monetary effect of these findings is as follows:

Service Type	Monetary Effect of Audit Results	Recommended Recovery
Telecommunications Services (Data Transmission Services)	\$ 61,045	\$ 61,045
Internet Access	\$ 188,296	\$ 188,296
Voice Services	\$ 3,416	\$ 3,416
Internal Connections	\$ 40,560	\$ 40,560
Total Impact	\$ 293,317	\$ 293,317

KPMG recommends that:

1. The Beneficiary and Service Provider enhance their internal review processes to ensure only actual costs for eligible services incurred are included in SPI reimbursement requests submitted to USAC, that requests for reimbursement are submitted under the correct FRN, that all credits received from the Service Provider are appropriately apportioned and applied to the reimbursement requests, and calculations to support amounts requested for reimbursement are free from mathematical errors.
2. The Beneficiary submit a request to USAC to extend the service delivery deadline when there is a delay in the installation process associated with E-rate products and services.
3. The Beneficiary and Service Provider implement an effective review process to ensure that the costs included in the SPI reimbursement requests are consistent with the Service Provider bills and contract.

Attachment D

SL2016BE047



*Austin Independent School District
Audit ID: SL2016BE047
(BEN: 141739)*

*Performance audit for the Universal Service Schools and
Libraries Program Disbursements related to the Period
from July 1, 2015 to June 17, 2016*

Prepared for: Universal Service Administrative Company

As of Date: September 26, 2017

KPMG LLP
1676 International Drive
Suite 1200
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KPMG LLP
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McLean, VA 22102

EXECUTIVE SUMMARY

September 26, 2017

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

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to the Austin Independent School District, Billed Entity Number (“BEN”) 141739, (“Austin ISD” or “Beneficiary”) for disbursements of \$982,216 and commitments of \$3,645,512, made from the federal Universal Service Schools and Libraries Program related to the period from July 1, 2015 to June 17, 2016 (hereinafter “audit period”). Our work was performed during the period from July 12, 2016 to September 26, 2017, and our results are as of September 26, 2017.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2011 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary’s compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program (“E-rate Program”) set forth in 47 C.F.R. Part 54 of the Federal Communications Commission’s (“FCC”) Rules as well as other program requirements (collectively, the “Rules”) that determined the Beneficiary’s eligibility and resulted in commitments of \$3,645,512 and disbursements of \$982,216 made from the E-rate Program related to the audit period. Compliance with the Rules is the responsibility of the Beneficiary’s management. Our responsibility is to evaluate the Beneficiary’s compliance with the Rules based on our audit.

As our report further describes, KPMG identified one finding as discussed in the Audit Results and Commitment Adjustment/Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to the audit period were \$982,216 higher than they would have been had the amounts been reported properly. Further, we estimate that commitments made to the Beneficiary from the E-rate Program related to Funding Year 2015 were \$2,771,201 higher than they should have been as a result of the one identified finding.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC, and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
Audit Period	Period from July 1, 2015 to June 17, 2016
Austin ISD	Austin Independent School District
BEAR	Billed Entity Applicant Reimbursement
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
CIPA	Children's Internet Protection Act
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 472	Billed Entity Applicant Reimbursement Form
FCC Form 474	Service Provider Invoice Form
FCC Form 479	Certification of Compliance with the Children's Internet Protection Act
FCC Form 486	Receipt of Service Confirmation and Children's Internet Protection Act and Technology Plan Certification Form
FCDL	Funding Commitment Decision Letter
FRN	Funding Request Number
Funding Year 2015	The twelve-month period from July 1, 2015 to June 30, 2016 during which E-rate Program support is provided
Item 21	Description of the products and services for which discounts are sought in the FCC Form 471
MIBS	Managed Internal Broadband Services
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery	Recommended Commitment Adjustment
<u>SL2016BE047-F01: Failure to Comply with Competitive Bidding Requirements – Price Was Not the Primary Factor</u> – Price was not the primary factor in the bid evaluation process related to 56 FRNs for Category Two services.	\$982,216	\$982,216	\$2,771,201
Total Net Monetary Effect	\$982,216	\$982,216	\$2,771,201¹

¹The recommended commitment adjustment of \$2,771,201 represents the total commitment amounts for Category Two services for 56 FRNs, inclusive of amounts disbursed during the audit period.

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the Chart below for the recovery amount. Program Rules require applicants to conduct a fair and open competitive bidding evaluation prior to selecting a service provider and to use price of the eligible goods and services as the primary evaluation factor when selecting the winning bidder. USAC management acknowledges the Beneficiary’s response stating it selected the most cost effective solution. However, FCC rules require that price of the eligible goods and services be the primary factor and USAC cannot waive program rules. Therefore, USAC will seek rescind the commitments and recover funding as stated above.

USAC will also request the Beneficiary provide copies of policies and procedures implemented to address the issues identified in this audit. In addition, USAC directs the Beneficiary to USAC’s website under “Reference Area” for guidance on Competitive Bidding available at (<http://usac.org/sl/tools/reference-area.aspx>) and “Applicant Process, Step 2 – Selecting Service Providers” available at (<http://www.usac.org/sl/applicants/step02/default.aspx>). Further, USAC 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>).

Please see the chart below for full recovery amount for all FRNs at issue.

Recovery Action	Finding #1	Finding Total
FCC Form 471 No. 1014403 (All FRNs)	\$2,771,201	\$2,771,201

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the USF through four support mechanisms: High Cost; Low Income; Rural Health Care; and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations or advocate regarding any matter of universal service policy.

The Schools and Libraries (E-rate) Program is one of four support mechanisms funded through a Universal Service fee charged to telecommunications companies that provide interstate and/or international telecommunications services. USAC administers the USF at the direction of the FCC; USAC's SLD administers the E-rate Program.

The E-rate Program provides discounts to assist eligible schools and libraries in the United States to obtain affordable telecommunications equipment and/or services and Internet access. Two categories of services are funded. Category One services include voice services, data transmission services and Internet access. Category Two services include internal connections, basic maintenance of internal connections (BMIC), and managed internal broadband services (MIBS). Eligible schools and libraries may receive 20% to 90% discounts for Category One eligible services and discounts of 20% to 85% for Category Two eligible services depending on the type of service, level of poverty and the urban/rural status of the population served. Eligible schools, school districts and libraries may apply individually or as part of a consortium.

Beginning in Funding Year 2015, the discount rate for all voice services will be reduced by 20%, and shall be reduced further by an additional 20% every subsequent funding year until Funding Year 2019 when voice services will no longer be funded through the E-rate Program. This reduction applies to all expenses incurred for providing telephone services and increasing circuit capacity for providing dedicated voice services.

The E-rate Program supports connectivity – the conduit or pipeline for communications using telecommunications services and/or the Internet. The school or library is responsible for providing additional resources such as the end-user equipment (computers, telephone handsets, and modems), software, professional development, and the other resources that are necessary to fully enable and utilize such connectivity.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$3,645,512 and disbursements of \$982,216, made for the audit period.

Beneficiary Overview

The Austin Independent School District (BEN# 141739) is a school district located in Austin, Texas that serves over 83,500 students.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for the audit period by service type:

Service Type	Amount Committed	Amount Disbursed
Telecommunications Services (Data Transmission Services)	\$ 4,608	\$ -
Internet Access	\$ 599,147	\$ -
Voice Services	\$ 270,556	\$ -
Internal Connections	\$2,725,951	\$982,216
Basic Maintenance of Internal Connections	\$ 45,250	\$ -
Total	\$3,645,512	\$982,216

Source: USAC

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2015. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2015 as of June 17, 2016.

The committed total represents two FCC Form 471 applications with 64 FRNs. We selected 38 FRNs, which represent \$2,946,859 of the funds committed and \$695,986 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2015 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$3,645,512 and disbursements of \$982,216 made from the E-rate Program for the audit period. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2015 and disbursements received during the audit period, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, physical inventory of equipment purchased and maintained, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for the audit period.

KPMG identified the following areas of focus for this performance audit:

1. Application Process
2. Competitive Bid Process
3. Calculation of the Discount Percentage
4. Invoicing Process
5. Site Visits
6. Reimbursement Process
7. Record Keeping

8. Final Risk Assessment

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary for Funding Year 2015 and received by the Beneficiary during the audit period. The procedures conducted during this performance audit include the following:

1. Application Process

We obtained an understanding of the Beneficiary's processes relating to the application and use of E-rate Program funds. Specifically, for the FRNs audited, we examined documentation to support its effective use of funding. We also used inquiry to determine if any individual schools or entities related to the Beneficiary are receiving USAC funded services through separate FCC Forms 471 and FRNs.

2. Competitive Bid Process

For the FRNs audited, we obtained and examined documentation to determine whether all bids received were properly evaluated and that price of the eligible services was the primary factor considered. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected service providers. We reviewed the service provider contracts to determine whether they were properly executed. We evaluated the services and equipment requested and purchased for cost effectiveness as well.

3. Calculation of the Discount Percentage

For the FRNs audited, we obtained and examined documentation to understand the methodology used by the Beneficiary to calculate the discount percentage. We also obtained and examined documentation supporting the discount percentage calculation and determined if the calculations were accurate.

4. Invoicing Process

For the FRNs audited, we obtained and examined invoices for which payment was disbursed by USAC to determine that the equipment and services claimed on the FCC Form 472 Billed Entity Applicant Reimbursements (BEARs) 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.

5. Site Visits

For the FRNs audited, we performed a physical inventory to evaluate the location and use of equipment and services to determine whether it was delivered and installed, located in eligible facilities, and utilized in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. We also evaluated the equipment and services purchased by the Beneficiary to determine whether funding was used in an effective manner.

6. Reimbursement Process

For the FRNs audited, we obtained and examined invoices submitted for reimbursement for the services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, we reviewed invoices associated with the BEAR forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the

BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate Program Eligible Services List.

7. Record Keeping

We determined whether the Beneficiary's record retention policies and procedures are consistent with the E-rate Program rules. Specifically, we determined whether the Beneficiary was able to provide the documentation requested in the audit notification, for the FRNs audited, as well as retained and provided the documentation requested in our other audit procedures.

8. Final Risk Assessment

Based on the performance of the above audit procedures for the sampled FRNs, we considered any non-compliance detected during the audit and its effect on the FRNs excluded from the initial sample. We also considered whether any significant risks identified during the audit that may not have resulted in exceptions on the FRNs audited could affect the other FRNs. As a result of the finding noted in the Findings, Recommendations and Beneficiary Responses section below, KPMG expanded our testing to include the additional 23 Internal Connections FRNs not originally included in the scope of the audit, which were related to the same contract and competitive bidding process as noted below.

RESULTS

KPMG’s performance audit results include a listing of findings, recommendations and Beneficiary’s responses with respect to the Beneficiary’s compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2015 commitments and disbursements made from the E-rate Program for the audit period.

Findings, Recommendations and Beneficiary Responses

KPMG’s performance audit procedures identified one finding. The finding, including the condition, cause, effect, recommendation and Beneficiary response is as follows:

Finding No. **SL2016BE047-F01: Failure to Comply with Competitive Bidding Requirements – Price Was Not the Primary Factor**

Condition The Beneficiary performed the Category Two Services competitive bidding evaluations for 55 Internal Connections FRNs² and one BMIC FRN (2798560) where price was not the primary factor. The Beneficiary’s scoring criteria evaluated price with the same weight as two other factors when assessing the Service Provider bid responses. Service Provider 1 bid response was for equipment totaling \$3,783,267 and Service Provider 2 bid response was for equipment totaling \$3,762,876. The Beneficiary selected Service Provider 1 based on the total score per the Bid Evaluation Matrix. The Beneficiary rated Service Provider 1 higher noting exceptional prior experience as Service Provider 1 completed previous projects in a detailed, timely and professional manner. The following table illustrates the Beneficiary’s Bid Evaluation Matrix Criteria for Category Two Services for Funding Year 2015:

Evaluation Criteria	Weighting	Service Provider 1	Service Provider 2
Financial (Price)	30.00	29.84	30.00
Program Plan	30.00	30.00	17.33
Contractor's Capabilities	30.00	30.00	24.67
Reporting	10.00	10.00	7.00
Total	100.00	99.84	79.00

Cause During the competitive bidding process, the Beneficiary evaluated two factors with the same weight as price. The Beneficiary is unaware as to the cause of this finding as it did not follow their policy, which states price must be the primary factor for E-rate Program funded contracts.

² The Internal Connections FRNs are 2782930, 2782993, 2788944, 2789148, 2789174, 2789190, 2789198, 2789239, 2789267, 2789269, 2789275, 2789289, 2789295, 2790706, 2790711, 2790713, 2790717, 2790719, 2790722, 2790725, 2790727, 2790729, 2790731, 2790733, 2790735, 2790736, 2790737, 2790739, 2790740, 2790742, 2790743, 2790744, 2790748, 2790750, 2790751, 2790759, 2790797, 2790801, 2790803, 2790805, 2790808, 2790810, 2790811, 2790814, 2790815, 2790816, 2790818, 2790820, 2790822, 2790824, 2790825, 2790826, 2790828, 2790831, and 2790833.

Effect	The monetary impact for this finding is a recovery of disbursements of \$982,216, which represents the total disbursements of \$982,216 related to the 55 Internal Connections FRNs. ³ Further, commitments made to the Beneficiary from the E-rate Program should be reduced by \$2,771,201, which represents the total commitments of \$2,725,951 related to the 55 Internal Connections FRNs ⁴ and \$45,250 related to one BMIC FRN (2798560). The total commitment amount is inclusive of the disbursement amounts noted above for the 55 Internal Connections FRNs ⁵ . No disbursements were made for the one BMIC FRN.
Recommendation	The Beneficiary should enhance its procedures to follow its competitive bidding policies to ensure price of the eligible goods and services is the most heavily weighted factor and price does not have the same weight as other factors.
Beneficiary Response	<p>Austin ISD agrees with KPMG’s initial draft that recommended that USAC not seek recovery of any E-rate funds due to KPMG’s finding that the winning bid was cost-effective and therefore that the identified error was immaterial. Austin ISD acknowledges that it inadvertently gave the same weight for the price of eligible services as it did two other categories.</p> <p>The auditors should take into account the fact that, if Austin ISD had fully complied with program rules, <u>the outcome of the procurement would have been exactly the same</u>. The winning bidder, Layer 3, received 20 points more than the other vendor, Netsync. If Austin ISD weighted price at 35 or 40 points, for example, Layer 3 still would have been selected by Austin ISD as the most cost-effective solution. As it was, Austin ISD gave price nearly one-third of the total points in the procurement, and Austin ISD scored price using the same number of points – 30 – as USAC allocated to price in USAC’s sample scoresheet.</p> <p>The FCC does not require that schools select the cheapest bidder. Austin ISD notes that a difference of \$21,000 in a contract of more than \$3.7 million is insignificant when compared to the proposed recovery of the disbursements received by Austin ISD. If program rules compel this outcome, Austin ISD respectfully notes that they should be revised to avoid such an unjust result.</p> <p>In the future, Austin ISD notes that AISD bidding procedures will include compliance checks at three points during the bidding process. The AISD purchasing department, the AISD Network group, and the AISD E-rate consultant will each include a review of compliance to E-rate bidding rules in our RFP process. Also, the AISD planning process will incorporate annual training sessions for review and update of E-rate program requirements for all AISD staff involved in the E-rate program.</p>
KPMG Response	KPMG maintains that the Beneficiary failed to comply with competitive bidding requirements as price of the eligible goods and services was not the primary factor in the Service Provider selection process. KPMG notes that while the Category Two Services competitive bidding evaluations for 55 Internal Connections FRNs and one BMIC FRN (2798560) may have resulted in the same Service Provider selection

³ Refer to Footnote 2 for the complete list of Internal Connections FRNs.

⁴ Refer to Footnote 2 for the complete list of Internal Connections FRNs.

⁵ Refer to Footnote 2 for the complete list of Internal Connections FRNs.

had price been the highest weighted factor, the Beneficiary failed to utilize price as the primary factor and violated the FCC’s competitive bidding requirements.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. Section 54.503(c)(vi)(2)(ii) (B) (2015)	“All bids submitted for eligible products and services will be carefully considered, with price being the primary factor, and the bid selected will be for the most cost-effective service offering consistent with § 54.511.”
#1	47 C.F.R. Section 54.504(a)(1)(ix) (2015)	“The FCC Form 471 shall be signed by the person authorized to order eligible services for the eligible school, library, or consortium and shall include that person’s certification under oath that: ... Except as exempted by § 54.503(e), all bids submitted to a school, library, or consortium seeking eligible services were carefully considered and the most cost-effective bid was selected in accordance with § 54.503 of this subpart, with price being the primary factor considered, and it is the most cost-effective means of meeting educational needs and technology goals.”
#1	47 C.F.R. Section 54.511(a) (2015)	“(a) Selecting a provider of eligible services. Except as exempted in § 54.503(e), in selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.”
#1	<i>Ysleta Order</i> ⁶	“[P]rice must be the primary factor in considering bids. Applicants may also take other factors into consideration, but in selecting the winning bid, price must be given more weight than any other single factor.”
#1	<i>Ysleta Order</i> ⁷	“... [i]f in selecting bids an applicant assigns 10 points for reputation, 10 points to past experience, and 10 points to timing considerations, it must assign at least 11 points to price. This is how SLD has interpreted our requirements, which we find to be a reasonable administrative implementation of our rules.”

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified one finding, Failure to Comply with Competitive Bidding Requirements – Price Was Not the

⁶ *Request for Review of the Administrator’s Decision by Ysleta Ind. Sch. Dist. et al.*, CC Docket Nos. 96-45, et al., Order, 18 FCC Rcd 26407, 26429, para. 50 (*Ysleta Order*).

⁷ *Id.* at para. 50, n.138.

Primary Factor. Detailed information relative to the finding is described in the Findings, Recommendations and Beneficiary Responses section above.

The combined estimated monetary effect of this finding is as follows:

Service Type	Monetary Effect of Audit Results	Recommended Recovery	Recommended Commitment Adjustment
Internal Connections	\$982,216	\$982,216	\$ 2,725,951
Basic Maintenance of Internal Connections	\$ -	\$ -	\$ 45,250
Total Impact	\$982,216	\$982,216	\$2,771,201⁸

KPMG recommends that the Beneficiary enhance its competitive bidding procedures to ensure price is the most heavily weighted factor in all its bid evaluations and that price does not have the same weight as other factors.

⁸ See footnote 1.

Attachment E

SL2016BE050



*New York Public Library
Audit ID: SL2016BE050
(BEN: 123602)*

*Performance audit for the Universal Service Schools and
Libraries Program Disbursements related to Funding
Year 2015 as of July 15, 2016*

Prepared for: Universal Service Administrative Company

As of Date: September 25, 2017

KPMG LLP
1021 E Cary Street
Suite 2000
Richmond, VA 23219

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Suite 2000
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Richmond, VA 23219-4023

EXECUTIVE SUMMARY

September 25, 2017

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

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to the New York Public Library, Billed Entity Number (“BEN”) 123602, (“NYPL” or “Beneficiary”) for disbursements of \$1,002,661 and commitments of \$3,693,004, made from the federal Universal Service Schools and Libraries Program related to the twelve-month period ended June 30, 2016, as of July 15, 2016 (hereinafter “Funding Year 2015”). Our work was performed during the period from August 23, 2016 to September 25, 2017, and our results are as of September 25, 2017.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2011 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary’s compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program (“E-rate Program”) set forth in 47 C.F.R. Part 54 of the Federal Communications Commission’s (“FCC”) Rules as well as other program requirements (collectively, the “Rules”) that determined the Beneficiary’s eligibility and resulted in commitments of \$3,693,004 and disbursements of \$1,002,661 made from the E-rate Program related to Funding Year 2015. Compliance with the Rules is the responsibility of the Beneficiary’s management. Our responsibility is to evaluate the Beneficiary’s compliance with the Rules based on our audit.

As our report further describes, KPMG identified three findings as discussed in the Audit Results and Commitment Adjustment/Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to Funding Year 2015 were \$104,483 higher than they would have been had the amounts been reported properly.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC, and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
CIPA	Children’s Internet Protection Act
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 472	Billed Entity Applicant Reimbursement Form
FCC Form 474	Service Provider Invoice Form
FCC Form 479	Certification of Compliance with the Children’s Internet Protection Act
FCC Form 486	Receipt of Service Confirmation and Children’s Internet Protection Act and Technology Plan Certification Form
FCDL	Funding Commitment Decision Letter
FRN	Funding Request Number
Funding Year 2015	The twelve-month period from July 1, 2015 to June 30, 2016 during which E-rate Program support is provided (as of July 15, 2016)
IP	Internet Protocol
Item 21	Description of the products and services for which discounts are sought in the FCC Form 471
MIBS	Managed Internal Broadband Services
NYPL	New York Public Library
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund
VoIP	Voice over Internet Protocol

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery	Recommended Commitment Adjustment
<u>SL2016BE050-F01: Lack of Necessary Resources to Make Effective Use of Services and Equipment</u> – The Beneficiary physically installed switches purchased through FRNs 2785219, 2786798 and 2786815 on racks, but did not demonstrate effective use of the equipment as no ports were being utilized.	\$104,483	\$104,483	\$ -
<u>SL2016BE050-F02: Lack of Necessary Resources to Make Effective Use of Services and Equipment</u> – The Beneficiary installed switches purchased through FRNs 2785219 and 2786913 at various locations and though the switches were in use, in each instance the switches were found to have less than 50% usage (i.e., less than half of the ports had active connections).	\$ -*	\$ -*	\$ -
<u>SL2016BE050-F03: Inaccurate Category Two Budget Calculation</u> – The Beneficiary included incorrect square footage data for seven locations and used a lower rate per square foot for fifteen urban locations to calculate the Category Two Budget as reported on the FCC Form 471.	\$ -	\$ -	\$ -**
Total Net Monetary Effect	\$104,483	\$104,483	\$ -

*For Finding SL2016BE050- F02, there is no monetary effect or recommended recovery as the equipment was in use with an expected increase in usage within the next year.

**For Finding SL2016BE050-F03, there is no recommended commitment adjustment in spite of the additional commitments the Beneficiary would have been eligible for had the Category Two budget been calculated accurately, as there is no mechanism in place to increase the commitment amount after the application window has closed and the submitted applications have been funded.

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above for Findings 02 and 03. However, for Finding 01, USAC will conduct additional outreach with the applicant to determine when the equipment was installed and if recovery is necessary pursuant to FCC rules. USAC will also request the Beneficiary provide copies of policies and procedures implemented to address the issues identified in this audit. In addition, USAC directs the Beneficiary to USAC's website under "Reference Area" for guidance on Discount Calculations available at (<http://usac.org/sl/tools/reference-area.aspx>). Further, USAC 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>).

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

USAC is an independent not-for-profit corporation that operates under the direction of the FCC pursuant to 47 C.F.R. Part 54. The purpose of USAC is to administer the USF through four support mechanisms: High Cost; Low Income; Rural Health Care; and Schools and Libraries. These four support mechanisms ensure that all people regardless of location or income level have affordable access to telecommunications and information services. USAC is the neutral administrator of the USF and may not make policy, interpret regulations or advocate regarding any matter of universal service policy.

The Schools and Libraries (E-rate) Program is one of four support mechanisms funded through a Universal Service fee charged to telecommunications companies that provide interstate and/or international telecommunications services. USAC administers the USF at the direction of the FCC; USAC's SLD administers the E-rate Program.

The E-rate Program provides discounts to assist eligible schools and libraries in the United States to obtain affordable telecommunications equipment and/or services and Internet access. Two categories of services are funded. Category One services include voice services, data transmission services and Internet access. Category Two services include internal connections, basic maintenance of internal connections (BMIC), and managed internal broadband services (MIBS). Eligible schools and libraries may receive 20% to 90% discounts for Category One eligible services and discounts of 20% to 85% for Category Two eligible services depending on the type of service, level of poverty and the urban/rural status of the population served. Eligible schools, school districts and libraries may apply individually or as part of a consortium.

Beginning in Funding Year 2015, the discount rate for all voice services will be reduced by 20%, and shall be reduced further by an additional 20% every subsequent funding year until Funding Year 2019 when voice services will no longer be funded through the E-rate Program. This reduction applies to all expenses incurred for providing telephone services and increasing circuit capacity for providing dedicated voice services.

The E-rate Program supports connectivity – the conduit or pipeline for communications using telecommunications services and/or the Internet. The school or library is responsible for providing additional resources such as the end-user equipment (computers, telephone handsets, and modems), software, professional development, and the other resources that are necessary to fully enable and utilize such connectivity.

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$3,693,004 and disbursements of \$1,002,661 made for Funding Year 2015.

Beneficiary Overview

The New York Public Library (BEN# 123602) is a library system located in New York, NY that serves over 17 million patrons a year with 92 locations throughout three boroughs: the Bronx, Manhattan and Staten Island.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2015 by service type:

Service Type	Amount Committed	Amount Disbursed
Telecommunications Services (Data Transmission Services)	\$1,937,535	\$ 250,012
Internet Access	\$ 144,255	\$ 97,077
Voice Services	\$ 585,055	\$ 8,408
Internal Connections	\$1,026,159	\$ 647,164
Total	\$3,693,004	\$1,002,661

Source: USAC

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2015. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2015 as of July 15, 2016.

The committed total represents three FCC Form 471 applications with 22 FRNs. We selected 13 FRNs, which represent \$3,529,491 of the funds committed and \$924,877 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2015 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$3,693,004 and disbursements of \$1,002,661 made from the E-rate Program for Funding Year 2015. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2015 and disbursements received, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, physical inventory of equipment purchased and maintained, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for Funding Year 2015.

KPMG identified the following areas of focus for this performance audit:

1. Application Process
2. Competitive Bid Process
3. Calculation of the Discount Percentage
4. Invoicing Process
5. Site Visits
6. Reimbursement Process
7. Record Keeping
8. Final Risk Assessment

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary for Funding Year 2015 and received by the Beneficiary for Funding Year 2015. The procedures conducted during this performance audit include the following:

1. Application Process

We obtained an understanding of the Beneficiary's processes relating to the application and use of E-rate Program funds. Specifically, for the FRNs audited, we examined documentation to support its effective use of funding. We also used inquiry to determine if any individual schools or entities related to the Beneficiary are receiving USAC funded services through separate FCC Forms 471 and FRNs.

We obtained and examined documentation to determine whether the Beneficiary complied with the FCC's CIPA requirements. Specifically, we obtained and evaluated the Beneficiary's Internet Safety Policy, and obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

2. Competitive Bid Process

For the FRNs audited, we obtained and examined documentation to determine whether all bids received were properly evaluated and that price of the eligible services was the primary factor considered. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected service providers. We reviewed the service provider contracts to determine whether they were properly executed. We evaluated the services and equipment requested and purchased for cost effectiveness as well.

3. Calculation of the Discount Percentage

For the FRNs audited, we obtained and examined documentation to understand the methodology used by the Beneficiary to calculate the discount percentage. We also obtained and examined documentation supporting the discount percentage calculation and determined if the calculations were accurate.

4. Invoicing Process

For the FRNs audited, we obtained and examined invoices for which payment was disbursed by USAC to determine that the equipment and services claimed on the FCC Form 472 Billed Entity Applicant Reimbursements (BEARs) 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.

5. Site Visits

For the FRNs audited, we performed a physical inventory to evaluate the location and use of equipment and services to determine whether it was delivered and installed, located in eligible facilities, and utilized in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. We also evaluated the equipment and services purchased by the Beneficiary to determine whether funding was used in an effective manner.

6. Reimbursement Process

For the FRNs audited, we obtained and examined invoices submitted for reimbursement for the services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, we reviewed invoices associated with the BEAR forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the

BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate Program Eligible Services List.

7. Record Keeping

We determined whether the Beneficiary's record retention policies and procedures are consistent with the E-rate Program rules. Specifically, we determined whether the Beneficiary was able to provide the documentation requested in the audit notification, for the FRNs audited, as well as retained and provided the documentation requested in our other audit procedures.

8. Final Risk Assessment

Based on the performance of the above audit procedures for the sampled FRNs, we considered any non-compliance detected during the audit and its effect on the FRNs excluded from the initial sample. We also considered whether any significant risks identified during the audit that may not have resulted in exceptions on the FRNs audited could affect the other FRNs. As a result of the findings noted in the Findings, Recommendations and Beneficiary Responses section below, KPMG expanded our testing to cover the Category Two budget calculation process for FRNs 2784568 and 2784596.

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary's responses with respect to the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2015 commitments and disbursements made from the E-rate Program.

Findings, Recommendations and Beneficiary Responses

KPMG's performance audit procedures identified three findings. The findings, including the condition, cause, effect, recommendation, Beneficiary response and Service Provider response are as follows:

Finding No. **SL2016BE050-F01: Lack of Necessary Resources to Make Effective Use of Services and Equipment**

Condition During our site visits to selected libraries within the Beneficiary's library system, we observed what appeared to be ineffective use of E-rate Program funded switches for FRNs 2785219, 2786798 and 2786815. The Beneficiary physically installed 22 E-rate Program funded switches on racks located at the three locations listed in the table below, but did not demonstrate effective use of the E-rate Program funded equipment as no ports were being utilized.

Location	Switch Type	Quantity	FRN	Amount
Library for the Performing Arts	Cisco WS-C4500X--32SFP	2	2785219	\$ 28,300
	Cisco WS-C3650-48PQ-S	1	2785219	\$ 6,015
Schomburg Center	Cisco WS-C2960X-48FPS-L	14	2786798	\$ 46,662
Stephen A. Schwarzman Building	Cisco WS-C4500X-24X-IPB	4	2786815	\$ 40,428
	Cisco WS-C6504-E	1	2786815	\$ 1,516
Total		22		\$122,921

Cause The Beneficiary lacked the resources to complete the migration of the network connections from the older equipment to the new equipment purchased with E-rate Program funds in a timely manner.

Effect The overall monetary effect of this finding is an over disbursement of \$104,483 related to FRNs 2785219, 2786798 and 2786815. This amount represents the undiscounted equipment charges totaling \$122,921, multiplied by the Beneficiary's discount rate of 85 percent for each FRN. The monetary effects for the individual FRNs are as follows:

- (1) The monetary effect for this finding is \$29,168 related to FRN 2785219. This amount represents the total value of the equipment of \$34,315 multiplied by the Beneficiary's discount rate of 85%.
- (2) The monetary effect for this finding is \$39,663 related to FRN 2786798. This amount represents the total value of the equipment of \$46,662 multiplied by the Beneficiary's discount rate of 85%.

- (3) The monetary effect for this finding is \$35,652 related to FRN 2786815. This amount represents the total value of the equipment of \$41,944 multiplied by the Beneficiary's discount rate of 85%.

Recommendation KPMG recommends that the Beneficiary implement appropriate policies and procedures to ensure Category Two equipment purchased through the E-rate Program is put to effective use in a timely manner in compliance with FCC Rules.

Beneficiary Response

FRN 2785219: The three pieces of Erate equipment noted on the finding report were installed, with active connections to the NYPL backbone network, on July 8, 2016. NYPL acknowledges that only two or three ports on each of these switches, connections to the backbone network, were utilized at the time of the site visits.

NYPL purchased the two WS-C4500X switches to replace older switches connecting storage systems. These storage systems were moved onto the Erate funded WS-C4500X switches on December 2, 2016.

NYPL purchased the WS-C3650-48PQ-S switch to connect computers and WiFi APs via 1G ports, since they needed faster connections than the 100M ports on the older switches. On November 28, 2016, a total of 25 of these devices were connected to the Erate funded WS-C3650-48PQ-S switch.

FRN 2786798: The Erate funded equipment was installed and configured with active connections to the NYPL backbone network on September 23, 2016. Major portions of Schomburg building were under significant renovations at the time of the site visit. Renovations involved gutting portions of the building and rebuilding it with new interior walls, ceilings, electrical and data wiring, and furniture. This construction was scheduled to finish by the end of summer 2016, but most of the space was not completed until February 2017, and a small portion is still not complete. This construction hampered our ability to connect devices to the switches by the time of the site visit. Since that visit at least 142 devices were connected to ports on these new Erate funded switches.

FRN2786815: All five pieces of Erate equipment noted on the finding report were installed, with active connections to the NYPL backbone network, at the time of the site visit. We acknowledge that only two or three ports on each of these switches, connections to the backbone network, were utilized at the time of the site visits.

The Cisco WS-C6504 switch is acting as a router, and in this role the number of ports with cables is not an indicator of its "utilization". While it only had two connections at the time of the site visit (as it still does) it was fully functioning. Today those two connections trunk multiple vlans from several building, which are routed by the Erate funded 6504.

Additional connections were made to the four Erate funded Cisco WS-C4500X switches in December 2016.

KPMG Response During the site visits for the selected libraries completed in November 2016, we noted the 22 aforementioned switches were mounted to the racks and powered on, however none of the ports on these switches were in use. Additionally, the Beneficiary is required to have installed and be fully utilizing the E-rate Program funded equipment by September 30, 2016, as required by the FCC Rules, unless an installation extension is otherwise granted. Based on discussions with the Beneficiary, NYPL did not request nor were they granted an extension to install and implement the Category 2 equipment purchased with E-rate Program funding.

Finding No. **SL2016BE050-F02: Lack of Necessary Resources to Make Effective Use of Services and Equipment**

Condition During our site visits to selected libraries within the Beneficiary's library system, we observed what appeared to be ineffective use of E-rate Program funded switches for FRNs 2785219 and 2786913. The Beneficiary installed the switches at the locations listed in the table below and though the switches were in use, in each instance the switches were found to have less than 50% usage (i.e., less than half of the ports had active connections).

Location	Switch Type	Quantity	FRN
Library for Performing Arts	Cisco WS-C4500X-24X-IPB	1	2785219
Allerton Library	Cisco WS-C2960+48PST-L	2	2786913
Belmont Library	Cisco WS-C2960+48PST-L	3	2786913
Mulberry Street Library	Cisco WS-C2960+48PST-L	1	2786913
Parkchester Library	Cisco WS-C2960+48PST-L	1	2786913
St. Agnes Library	Cisco WS-C2960+48PST-L	1	2786913
Westchester Square Library	Cisco WS-C2960+48PST-L	3	2786913
Total		12	

Cause The Beneficiary purchased equipment with the intent to increase usage within the next year by replacing the analog phone system at the library branches with VoIP handsets, each of which will require a network port and accommodate planned growth within the next two years with additional wireless access points, equipment and other staff and public use devices. However due to construction at some locations and various other delays, the implementation of the systems had been delayed.

Effect There is no monetary impact for this finding as KPMG was able to locate the E-rate Program funded equipment for Funding Year 2015 and identify that the equipment was in use with an expected increase in usage within the next year.

Recommendation KPMG recommends that the Beneficiary implement appropriate policies and procedures to ensure compliance with the FCC Rules and have Category Two equipment purchased through the E-rate Program funding put to effective use in a timely manner.

Beneficiary Response NYPL is not aware of a requirement to have 50% of ports in use at time of installation. We anticipate using additional ports in the next two years to connect additional PCs, printers, WiFi access points and other staff and public use devices.

FRN 2785219: The Cisco WS-C4500X-24X-IPB is the smallest switch that met our performance criteria for use as a 10G WAN backbone switch.

FRN 2786913: Allerton Library - NYPL notes that by moving some of the connections between the two switches one of them would exceed the 50% threshold.

Belmont Library - NYPL notes that by moving some of the connections between the three switches two of them would exceed the 50% threshold.

Mulberry Library - NYPL notes that by moving some of the connections between the Mulberry switches all of them would exceed the 50% threshold

Parkchester Library - NYPL notes that by moving some of the connections between the Parkchester switches all of them would exceed the 50% threshold

St Agnes Library – As of December 2, 2016 this switch now exceeds 50% of the ports in use

Westchester Library - NYPL notes that by moving some of the connections between the three switches one of them would exceed the 50% threshold.

KPMG Response KPMG notes that there is no specific rule prescribed by the FCC Rules and Orders around the number of ports to be in use at installation, but used a 50 percent threshold and consideration of other factors during fieldwork to determine effective use of equipment purchased through the E-rate Program. KPMG also notes that the Beneficiary is required to have the necessary resources implemented to ensure E-rate Program funded equipment is effectively utilized in a timely manner.

Finding No. **SL2016BE050-F03: Inaccurate Category Two Budget Calculation**

Condition The Beneficiary’s Category Two Budget calculation as reported on the FCC Form 471 No. 1025451 contained errors, as described below:

a) For seven locations, the Beneficiary’s underlying records did not reconcile to the square footage reported on the FCC Form 471. KPMG recalculated the Category Two Budget amounts reported on the FCC Form 471 using the correct square footage data, resulting in the net Category Two budget for the following seven locations to be overstated as detailed in the table below.

Location	Reported Category Two Budget	Recalculated Category Two Budget	Variance
Kingsbridge Library	\$ 60,000	\$ 64,060	(\$ 4,060)
Mariners Harbor Library	\$ 9,200	\$ 55,000	(\$45,800)
Mulberry Street Library	\$ 29,792	\$ 80,400	(\$50,608)
Port Richmond Library	\$ 47,525	\$ 47,145	\$ 380
Science, Industry and Business Library	\$1,250,000	\$512,420	\$737,580
Stapleton Library	\$ 23,350	\$ 23,370	(\$ 20)
Washington Heights Library	\$ 83,850	\$ 83,825	\$ 25
Total	\$1,503,717	\$866,220	\$637,497

- b) For fifteen (15) locations, the Beneficiary utilized the incorrect rate per square foot when calculating the Category Two services budget included on the FCC Form 471. The Beneficiary used the rural rate of \$2.30 per square foot to calculate the budget for the 15 library locations instead of the urban rate of \$5.00 per square foot that the Beneficiary was eligible for.

Location	Reported Category Two Budget	Recalculated Category Two Budget	Variance
53rd Street Library	\$ 63,043	\$ 137,050	\$ (74,007)
58th Street Library	\$ 18,483	\$ 40,180	\$ (21,697)
67th Street Library	\$ 31,712	\$ 68,940	\$ (37,228)
96th Street Library	\$ 31,315	\$ 68,075	\$ (36,760)
Andrew Heiskell Library	\$ 98,900	\$ 215,000	\$ (116,100)
Battery Park City Library	\$ 23,230	\$ 50,500	\$ (27,270)
Epiphany Library	\$ 37,301	\$ 81,090	\$ (43,789)
Francis Martin Library	\$ 39,399	\$ 85,650	\$ (46,251)
Kips Bay Library	\$ 21,620	\$ 47,000	\$ (25,380)
Mid-Manhattan Library	\$ 367,724	\$ 799,400	\$ (431,676)
Morningside Heights Library	\$ 39,100	\$ 85,000	\$ (45,900)
Ottendorfer Library	\$ 19,164	\$ 41,660	\$ (22,496)
Stephen A. Schwarzman Building	\$1,518,000	\$3,300,000	(\$1,782,000)
Webster Library	\$ 27,142	\$ 59,005	\$ (31,863)
Yorkville Library	\$ 30,158	\$ 65,560	\$ (35,402)
Total	\$2,366,291	\$5,144,110	(\$2,777,819)

Cause The Beneficiary did not perform an adequate review of FCC Form 471 No. 1025451 to verify the data reported reconciled to supporting documentation and contained the proper budget rates prior to submission.

Effect The overall effect of this finding is an under commitment of \$2,140,322 (\$2,777,819 understatement less the \$637,497 overstatement) related to FRNs 2784260, 2784555, 2784568, 2784596, 2785219, 2786798, 2786815 and 2786913. This effect was calculated by combining the two reporting errors within the FCC Form 471.

- 1) The Category Two budget was overstated by \$637,497 due to the incorrect square footage reported per location on the FCC Form 471.
- 2) The Category Two budget was understated by \$2,777,819 due to the Beneficiary utilizing the incorrect rate per square foot in calculating and reporting the Category Two budget on the FCC Form 471.

However, there is no recommended commitment adjustment in spite of the additional commitments the Beneficiary would have been eligible for had the Category Two budget been calculated accurately, as there is no mechanism in place to increase the commitment amount after the application window has closed and the submitted applications have been funded.

Recommendation KPMG recommends that the Beneficiary enhance the policies and procedures governing the Category Two budget calculation process to ensure that the budget is prepared based on accurate square footage information for all locations as supported by underlying documentation and utilizing the appropriate rates per square foot.

Beneficiary Response NYPL E-Rate representative used the 2014 data from this website <https://www.ims.gov/research-evaluation/data-collection/public-libraries-survey/explore-pls-data/pls-data>.

FY 2015 was the first year that libraries reported square foot data, and there was confusion about the amount per square footage (the first modernization order allowed for \$2.30 per square foot, the second modernization order changed it to \$5.00 per square foot for libraries with population greater than 250,000 residents). The district should have used \$5.00 per square foot for each library branch. NYPL has updated all square footages across the Manhattan, Staten Island, and Bronx to reflect accurate numbers.

Criteria

Finding	Criteria	Description
#1, #2	47 C.F.R. Section 54.504 (a)(1)(iii) (2015).	“The entities listed on the FCC Form 471 application have secured access to all of the resources, including computers, training, software, maintenance, internal connections, and electrical connections, necessary to make effective use of the services purchased. The entities listed on the FCC Form 471 will pay the discounted charges for eligible services from funds to which access has been secured in the current funding year or, for entities that will make installment payments, they will ensure that they are able to make all required installment payments. The billed entity will pay

Finding	Criteria	Description
		the non-discount portion of the cost of the goods and services to the service provider(s).”
#3	47 C.F.R. Section 54.502 (b)(3) (2015).	“Each eligible library shall be eligible for support for category two services, up to a pre-discount price of \$2.30 per square foot over a five-year funding cycle. Libraries shall provide the total area for all floors, in square feet, of each library outlet separately, including all areas enclosed by the outer walls of the library outlet and occupied by the library, including those areas off-limits to the public.”
#3	Instructions for applicants to complete Category 2 budgets per USAC website (http://www.usac.org/sl/applicants/step03/category-two-budget.aspx)	“To calculate the budget for a library, multiply the total area of the library in square feet, including all areas enclosed by the outer walls of the library and occupied by the library, by \$2.30. Because there is a funding floor, if the library's total area is less than 4,000 square feet, the budget is set at \$9,200. Libraries that serve populations of 250,000 or more are eligible for a \$5.00 per square foot budget. If such a library's total area is less than 1,840 square feet, that library's budget is also set at \$9,200.”
#3	<i>Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket Nos. 13-184 <i>et.al.</i> , Second Report and Order and Order on Reconsideration, 29 FCC Rcd. 15538 at para. 88 (Dec. 19, 2014).	“...we now adopt a separate budget of \$5.00 per square foot for libraries located in cities and urbanized areas with a population of 250,000 or more...”

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified three findings related to the Lack of Necessary Resources to Make Effective Use of Services and Equipment and Inaccurate Category Two Budget Calculation. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

The combined estimated monetary effect of these findings is as follows:

Service Type	Monetary Effect of Audit Results	Recommended Recovery	Recommended Commitment Adjustment
Internal Connections	\$104,483	\$104,483	\$ -
Total Impact	\$104,483	\$104,483	\$ -

KPMG recommends that the Beneficiary implement appropriate policies and procedures to ensure compliance with the FCC Rules, facilitating that Category Two equipment purchased through the E-rate Program funding is put to effective use in a timely manner, and that Category Two budgets are prepared utilizing the accurate square footage information as per supporting documentation and appropriate budget rates.

Universal Service Administrative Company Schools & Libraries Committee Meeting

INFORMATION ITEM

Schools and Libraries Support Mechanism 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 fourth quarter 2017 highlights, SL Operations, and progress on completion of the E-rate Productivity Center (EPC).

Discussion:

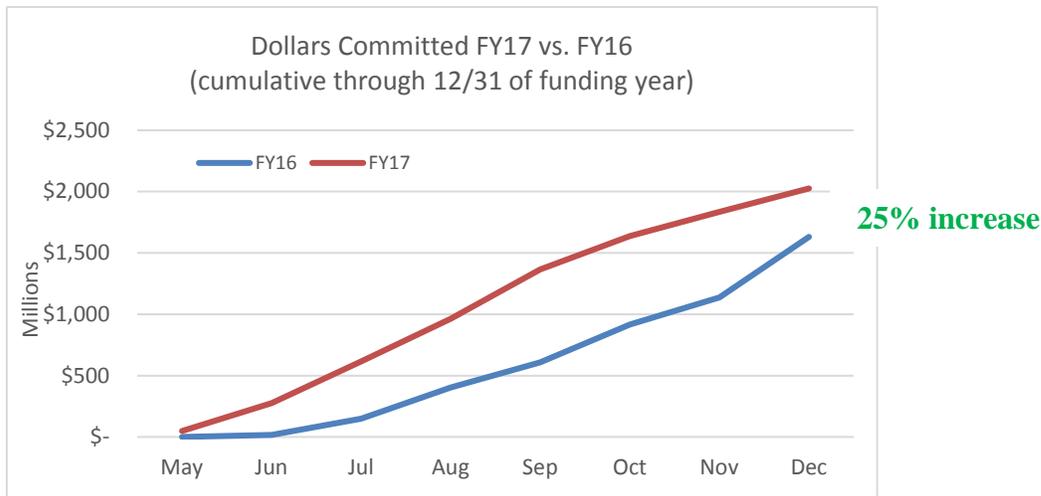
Program Highlights – 4th Quarter 2017

- Over 4,720 applications were processed in 4Q2017, committing \$0.66 billion for Funding Year (FY) 2017. Total FY 2017 applications processed and total funding committed through 4Q2017 is 38,344 and \$2.03 billion, respectively.
- In 4Q2017, over 110,000 invoice line items were processed, and invoice line items in the amount of \$571.8 million were authorized for payment.
- USAC issued 674 appeal decisions in 4Q2017 compared with 945 issued for 3Q2017, a 29 percent decrease. However, in 1Q2018, the reviews team is refocusing their efforts on resolving post-commitment backlogs in all areas, including appeals.
- USAC supported two Hurricane Relief Orders issued by the Federal Communications Commission (FCC or Commission) to provide relief to applicants affected by Hurricanes Harvey, Irma, and Maria. Pursuant to the Commission's direction, USAC extended program deadlines and opened and closed a second FCC Form 471 filing window for impacted applicants that met certification requirements to receive additional FY 2017 support to replace and rebuild their networks.
- USAC selected Sutherland Government Solutions, Inc. (Sutherland) as its call center vendor starting in 2018 to support the Schools and Libraries program, Rural Health Care (RHC), and High Cost (HC) programs.
- USAC began working on a 2018 strategic plan to develop and deliver comprehensive training to program participants through a variety of channels (e.g., live training, webinars, videos) and to help applicants and service providers be successful.

Schools and Libraries Support Mechanism Operational Update

Funding Application Review Update

Over 4,720 FY 2017 applications were processed obligating \$0.66 billion in 4Q2017. Cumulatively, through December 31, 2017, USAC processed 38,344 applications representing over \$2.03 billion in obligations to applicants for FY 2017. This represents a 9.6 percent improvement in applications reviewed compared to the same period for FY 2016, and a 25 percent increase in dollars obligated compared to the same period for FY 2016. As reported last quarter, USAC received over 40,000 FCC Form 471 applications in May, requesting \$3.2 billion for FY 2017. Through 4Q2017, USAC completed review of 84 percent of dollars requested for FY 2017 compared with 51 percent at this time last year for FY 2016. Further, USAC completed review of 97.6 percent of FY 2017 applications compared with only 88 percent over the same period for FY 2016. The chart below provides an update on FY 2017 commitments through 4Q2017, and the table below compares metrics for FY 2017 with FY 2016.



Funding Year Comparison	FY 2017 (as of 12/31/17)	FY 2016 (as of 12/31/16)
Applications Received	40,486	45,606
Dollars Requested	\$ 3.23 billion	\$ 3.61 billion
No./Percentage of Forms Completed	39,517 / 97.6%	40,275 / 88%
Amount/Percentage of Dollars Obligated to Applicants	\$ 2.03 billion / 63%	\$ 1.63 billion / 45%

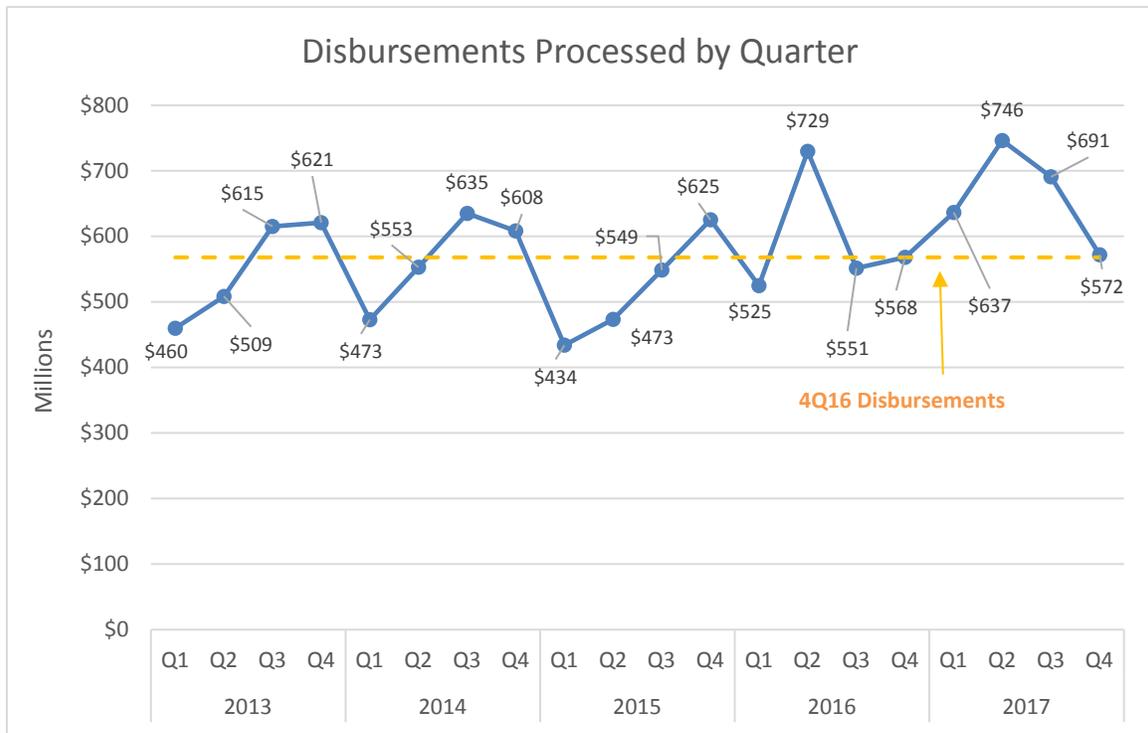
As of December 31, 2017, USAC has reviewed \$3.58 billion of the \$3.61 billion requested for FY 2016, and USAC has obligated over \$2.86 billion to applicants.

Fiber Applications

Through 4Q2017, 92 percent of FY 2017 fiber applications have been reviewed, and approved funding was \$154 million at quarter’s end. FY 2017 fiber applications totaled 1,328 with requests for \$306.22 million, compared with 1,243 fiber applications requesting \$215.46 million in FY 2016. As of December 31, 2017, 103 fiber applications requesting \$128 million in support remain pending for FY 2017.

Invoicing

In 4Q2017, over 110,000 invoice line items were processed, and invoice line items in the amount of \$571.8 million were authorized for payment. The 4Q2017 payment total represents a slight increase over 4Q2016. Further, the average processing time for invoice line items was 6.6 days in 4Q2017 compared to 8.2 days in 3Q2017. In 4Q2017, USAC continued to implement data integrations between EPC and Legacy information technology (IT) systems supporting financial transactions. The chart below shows quarterly disbursements from 2013 through 4Q2017.



Appeals

USAC issued 674 appeal decisions in 4Q2017 compared with 945 decisions issued in 3Q2017. USAC received 798 new appeals in 4Q2017 compared to 768 appeals received in 3Q2017. As of December 31, 2017, there were 949 pending appeals, compared with 1,100 pending appeals as of September 30, 2017, a 14 percent decrease in pending appeals. For the quarter, the average time to issue an appeal decision was 144 days compared to 82 days last quarter. USAC staff continues to process FY 2016 appeals and only 372 remained in process as of December 31, 2017. In 1Q2018, USAC is aggressively working to resolve the backlog in the appeals process and to reduce the time to issue appeal decisions.

Hurricane Relief Orders and Implementation

In October 2017, the Commission issued two orders to provide relief for applicants contending with the devastation caused by Hurricanes Harvey, Irma, and Maria. In the first order, the Wireline Competition Bureau granted additional time for schools and libraries located in counties deemed eligible for individual assistance by the Federal Emergency Management Agency (FEMA) to submit requests for review or waiver of decisions by USAC directed to USAC or the Commission, and file FCC Forms 486, 472, and 474.

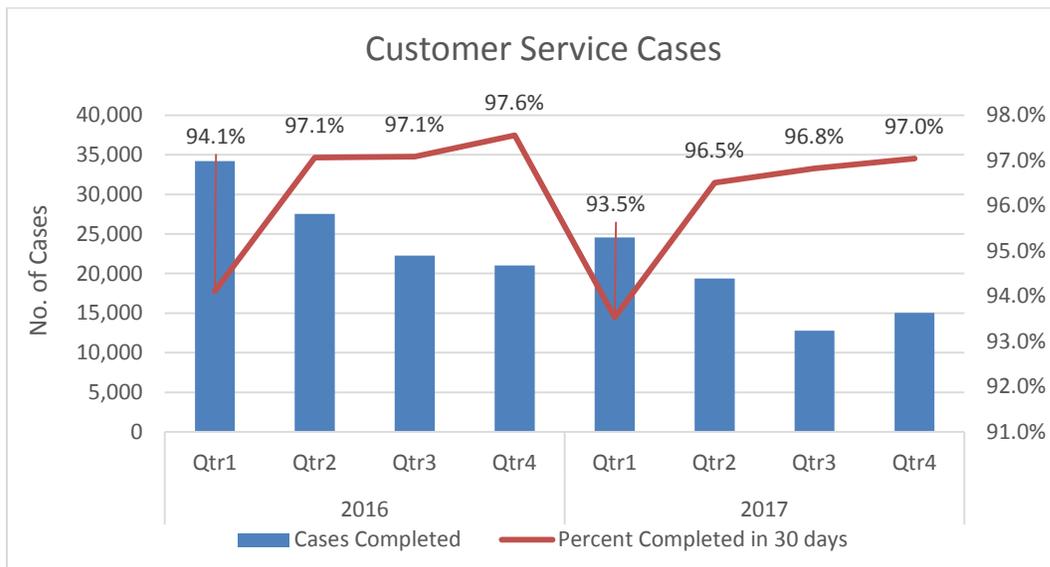
In the second Order, the Commission adopted temporary rules to provide additional relief to two categories of applicants: (a) schools and libraries located in counties designated by FEMA as eligible for individual disaster assistance; and (b) schools that are incurring additional costs because their student counts have increased by five percent or more because they are serving displaced students. For applicants in the first group that comply with certain certification requirements, the Commission made additional E-rate discounts available for the purchase of services and equipment that were disrupted, damaged, or destroyed by the Hurricanes by: (a) opening a Second FY 2017 FCC Form 471 filing window; and (b) resetting per-school and per-library five-year budgets for Category Two services. The Commission also provided additional flexibility to request service substitutions for a service or product that has been disrupted, destroyed or rendered unusable by the Hurricanes. For applicants in the second group that comply with certain certification requirements, the Commission made additional funding available to defray increased costs for eligible services by permitting these schools to file a supplemental FCC Form 471 to request additional E-rate discounts during the Second FY 2017 FCC Form 471 filing window to cover the costs for serving displaced students.

USAC IT delivered capabilities to open and close a Second FY 2017 FCC Form 471 filing window from November 13 to December 13 for affected applicants, and supported new hurricane review procedures and designations to identify the affected entities. These enhancements were necessary to identify and flag these applications so they are reviewed in accordance with the Hurricane procedures and ensure that the system supported the various types of relief provided in the Orders.

During the Second FY 2017 FCC Form 471 filing window, USAC received applications for just under \$10 million in post-discount requests for funding from schools and libraries located in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. USAC committed the first wave of these applications on January 6, 2018 and expects all applications to be committed by mid-February. Targeted outreach to all applicants impacted by the Hurricanes is ongoing, and the SL team continues to provide instructions about the next steps in the review process, including how to request post-commitment changes such as service substitutions. Deadline reminders are provided in the weekly News Briefs.

Customer Service

During 4Q2017, 15,184 customer service cases were opened and 15,024 cases were resolved with over 45 percent resolved within 30 days. The graph below shows cases completed and the percentage completed within 30 days for 2016 and 2017. As indicated in the graph, during the first quarter of each calendar year, USAC typically experiences the highest number of calls likely due to the fact that the filing window is in progress. In addition, as noted in the graph, the call volumes from 2016 to 2017 overall have decreased likely due to the improvements made to EPC and the fact that program participants are becoming more experienced with the system.



In Q42017, the top three customer service topics submitted were related to invoicing, online navigation of USAC’s systems, and the FCC Form 486. Also, in 4Q2017, the Customer Service Tier Three team conducted a variety of special projects, including: (1) outreach to over 800 applicants to confirm and correct FCC Form 486 service start dates for FY 2017 that were incorrectly populated due to systems issues, and (2) work with the IT team to facilitate cases where program participants were blocked by systems issues.

Training & Outreach

In 4Q2017, the SL Training and Outreach team began working on a comprehensive 2018 strategic training plan to address applicant and service provider training. The goal of the plan is to provide a roadmap for delivering training, including a mix of interactive and online self-paced training, in-person events, and monthly webinars on topics of interest to program participants. USAC will also carefully evaluate the topics to be presented to ensure that they will help applicants and service providers be successful. The plan also includes requesting input from the E-rate community on topics that they would like to see covered during trainings.

Update on Call Center Services Procurement

In 4Q2017, USAC selected Sutherland as its call center vendor supporting the Schools and Libraries program, as well as the RHC and HC programs. Sutherland will take over customer service operations for the Schools and Libraries program that were previously provided by Solix, Inc. and subcontracted to General Dynamics Information Technology (GDIT). The customer service functions will transition over 1Q and 2Q 2018 with the RHC and HC programs transitioning first, and the Schools and Libraries program transitioning second. This later transition period will ensure that the current call center staff will provide full support during the FY 2018 FCC Form 471 filing window. Once the transition is complete, Sutherland will provide call center support for the Schools and Libraries program by phone, email, web inquiry, and the EPC customer service module to assist applicants and service providers in resolving issues related to their participation in the program.

USAC and Sutherland held a two-day, transition kick-off meeting in December 2017 with USAC staff. The team reviewed the proposed transition project plan and key Sutherland managers received a six hour presentation on the E-rate program and our systems. The transition plan includes significant amounts of training for the new staff prior to allowing them to respond to any inquiry from the E-rate community. A variety of additional supports will be implemented once the customer service representatives begin to take calls, so that we can ensure high quality responses and use a continuous feedback loop for improvement. SL staff will be working closely with USAC's User Support group and Sutherland during the transition period and beyond. Once up and running, Sutherland will provide ongoing reporting, including call/contact volumes, call flow, and service quality monitoring.

Progress on Completion of the E-rate Productivity Center (EPC)

IT Systems Update

USAC continues to deploy key new functionality in the EPC system including two major releases in 4Q2017. Release 17.6 and Release 17.7 completed the build out of EPC and delivered additional EPC functionality for post-commitment changes (including Service Provider Identification Number (SPIN) changes and service substitutions), funding

rescission processing, and financial integrations. Additionally, the deployments implemented updates to the FY 2018 FCC Form 471 and updates needed to open the FY 2018 FCC Form 471 filing window on January 11, 2018.

Additional information on systems development can be found in **iSL03cf** to be held in *Executive Session*.

Briefing book excludes all materials discussed in Executive Session

iSL02 Attachment Program Highlights

Agenda

1. Operational Metrics Overview
2. 4Q Accomplishments
3. Funding Application Review Update
4. Disbursements Update
5. Hurricane Relief Efforts
6. 2018 Look Ahead

E-rate Scorecard – Q4 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 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.	G
Switch and Access Point Pricing		G

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	R

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%	R

USER EXPERIENCE/USER SUPPORT

Strengthen and simplify user support 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

Fourth Quarter 2017 Accomplishments and Updates

FY 2017 Application Review

Completed review of 97.6% of funding requests and 92% of fiber applications.

BPO Contract Extension

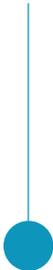
Secured business process outsourcing services contract for 2018.

Training

Conducted in-person Fall applicant training in four cities ahead of FY 2018 filing window. Planning for 2018 in-person training for service providers in Spring and applicants in Fall.

Hurricane Relief

Implemented 2 FCC orders granting relief to directly and indirectly affected applicants. Prepared EPC to accept Hurricane applications. Issued first commitments Jan. 6.



Call Center Transition

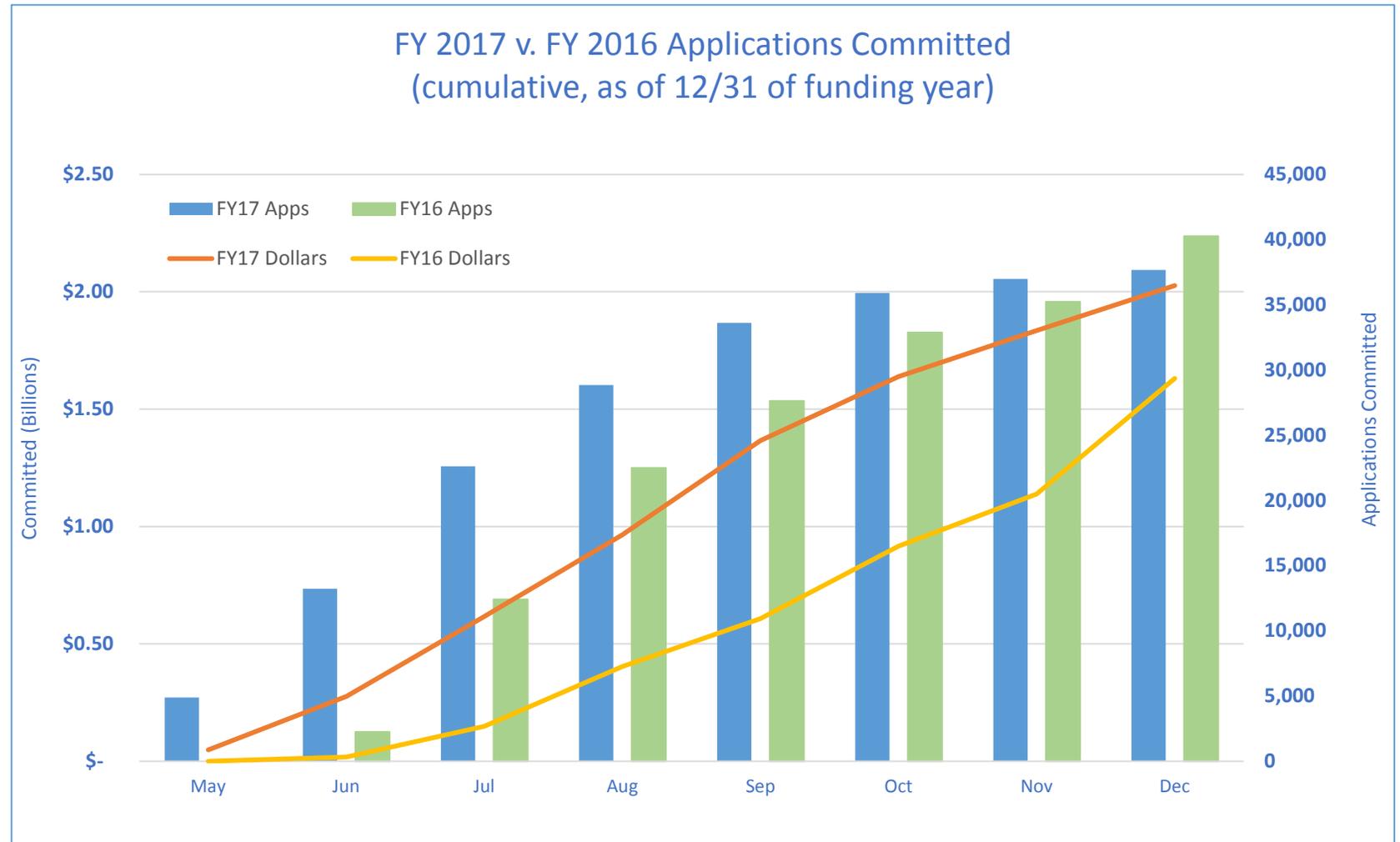
Develop SL training materials for transition to new call center vendor with User Support team to train call center agents.

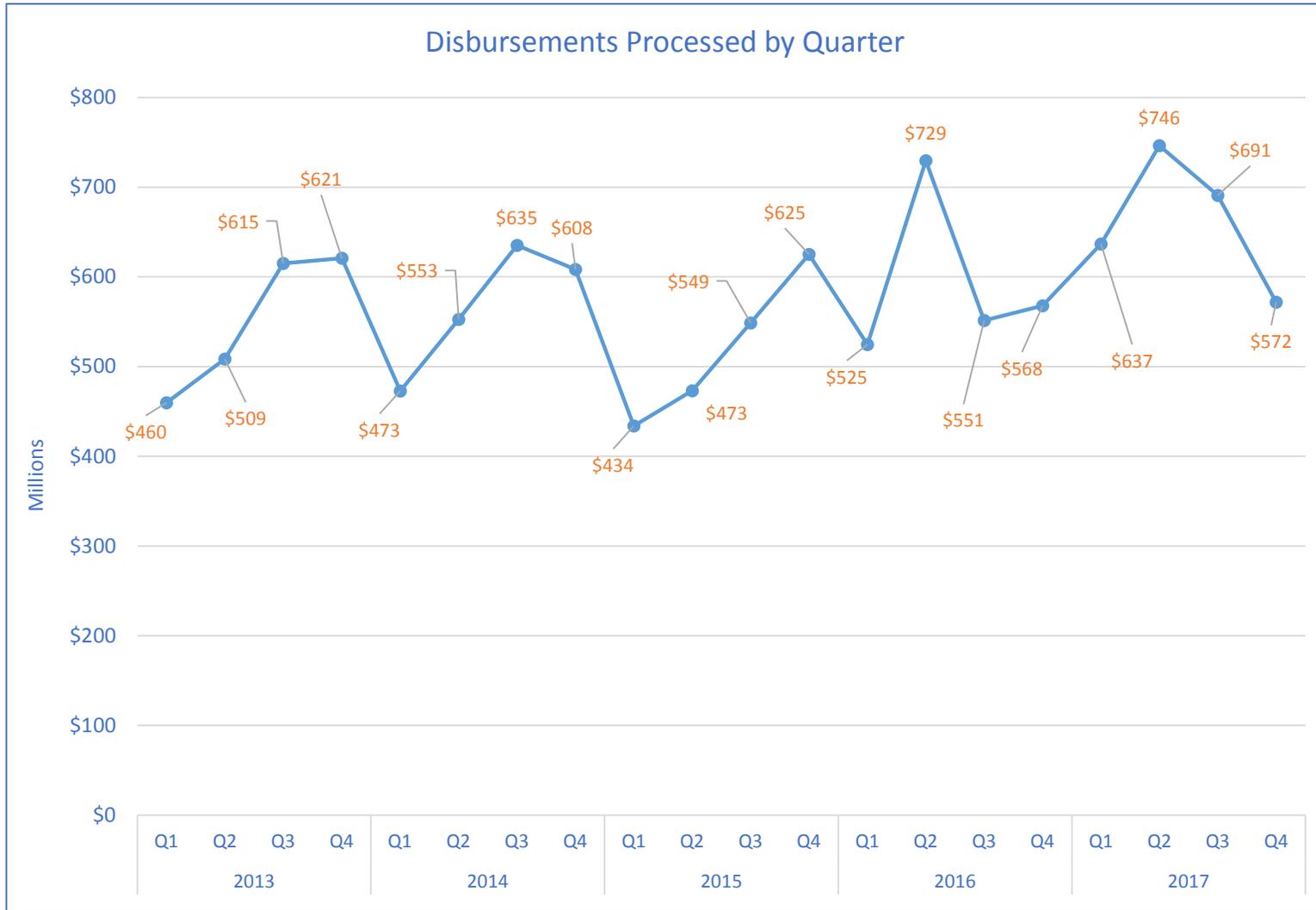


EPC Systems Development

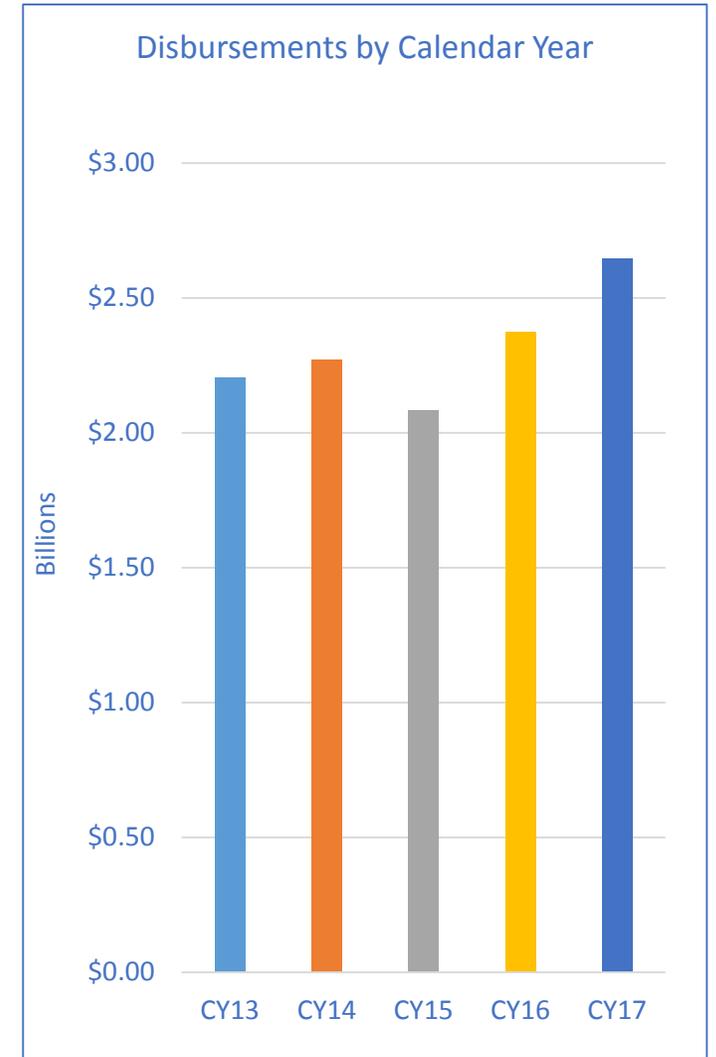
Completed system buildout for post-commitment functionality, prepared FY 2018 functionality for window open and application reviews, and completed integration of invoicing and financial data between systems.

- 40,503 FCC Form 471 applications received.
- 38,344 applications committed for \$2.03 B.
- Over 39,500 applications reviewed (97.6 %).



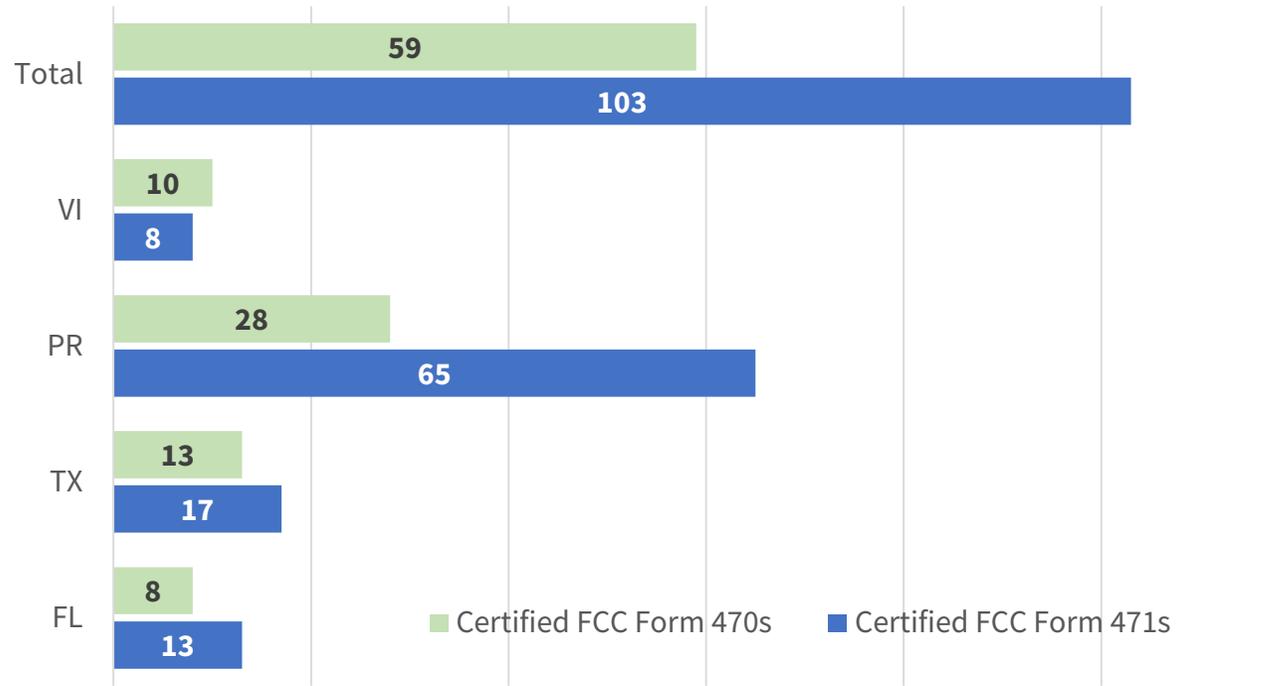


\$571.8 million was authorized for payment in 4Q2017.



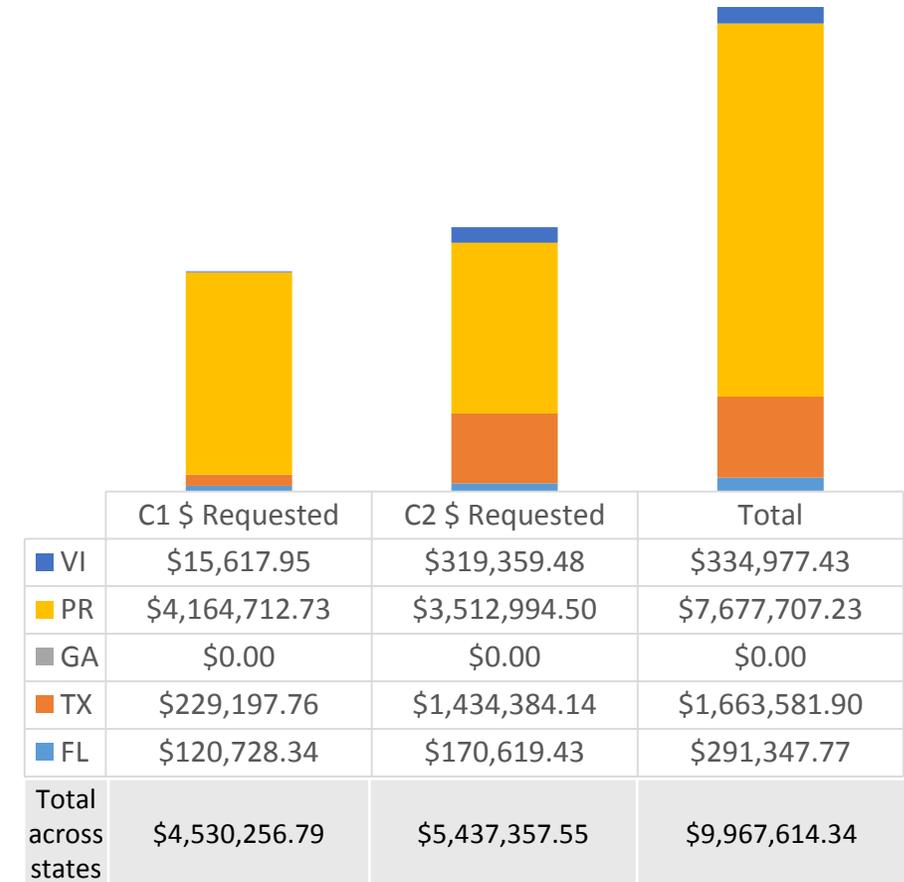
\$2.65 billion was paid in 2017.

Certified FCC Form 470s and FCC Form 471s



- 103 FCC Form 471 applications received requesting \$10 million in support after program discounts are applied.
- First commitments issued Jan. 6, 2018 for \$224,000.

Total \$ Requested (Post-Discount)



*Since all hurricane applications are from directly impacted hurricane counties, we applied a 90% discount to all C1 applications and a 85% discount to all C2 applications. We may determine that some applicants were indirectly impacted by the hurricane during PIA review, which could change the discount level for some FRNs.

1Q2018 to 2Q2018 (Look Ahead)

PROGRAM INTEGRITY

Monitor and implement controls to validate funding requests and disbursements consistent with the Commission's rules.

- Applicants continue to file FCC Forms 470 for FY 2018.
- FCC Form 471 FY 2018 Filing Window opened Jan. 11, 2018 and will close March 22, 2018.
- Application reviews begin soon after applications are filed.
- SLD will continue to assist program participants with all aspects of the program including eligibility, competitive bidding, filing applications, and post-commitment requests (e.g., invoicing). USAC's Client Service Bureau is fully staffed to meet the expected additional call volumes associated with the FCC Form 471 filing window.

USER EXPERIENCE

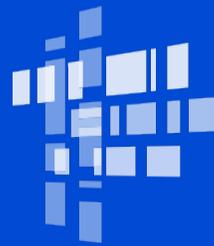
Strengthen and simplify user experience to enable successful participation.

- *Call Center.* SLD is working closely in coordination with other USAC divisions to ensure a smooth transition to a new call center vendor. This will involve conducting training, establishing technical interfaces, beginning initial call transition, and providing support for the selected vendor. The current vendor will provide full support for program participants through the filing window.
- USAC is planning and implementing its outreach plans for all program participants. This plan includes in-person training events, webinars, and online learning materials.
- *Outreach.* Continued engagement through the weekly NewsBrief, webinars, and program participant calls, with special emphasis in Q1 on filing window support.

OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes.

- SLD continues to seek ways to enhance our operations to be more efficient and effective, while ensuring that all requests are reviewed for compliance with program rules and requirements.
- SLD is focused on reducing the backlogs in Post-Commitment processes, including appeals, invoicing, post-commit change processes, and post-commitment forms processing.



**Universal Service
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