



Schools and Libraries Committee

Briefing Book - Audit Reports

Monday, July 23, 2018

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports: April 2, 2018 – May 31, 2018

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Berkeley Carroll School	4	<ul style="list-style-type: none"> • Schools and Libraries Eligible Services List for Funding Year 2015 – Beneficiary Requested SLP for Duplicate Services. The Beneficiary requested duplicative funding related to Internet lines for two of its buildings. • Beneficiary Over-Invoiced SLP for an Unapproved Service Substitution. The Beneficiary obtained unauthorized service substitutions. 	\$117,399	\$29,248	\$2,564	\$13,500	N
Eaton Academy (Attachment A)	2	<ul style="list-style-type: none"> • Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process. The Beneficiary did not demonstrate sufficient knowledge of the Rules governing a fair and open competitive bidding process. The Beneficiary was unaware that a service provider cannot be involved with the Beneficiary’s technology plan. • Schools and Libraries’ Eligible Services List for Funding Year 2010, at 20 (2009) – Beneficiary 	\$332,902	\$455,407	\$47,314	\$332,902	Y

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
		<p>Over-Invoiced SLP for Ineligible Services. The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the eligibility of basic maintenance of internal connections services. The Beneficiary was not aware that the services in question were ineligible and could not be included on the BEAR form for reimbursement. Further, the Beneficiary did not perform adequate research and did not seek appropriate assistance, including taking advantage of the training and outreach available on USAC’s website, to determine the services that are eligible for SLP support.</p>					
Mary McDowell Friends School	3	<ul style="list-style-type: none"> • Improperly Calculated Discount. The Beneficiary was not able to support the eligible student count reported in its FCC Form 471; as a result, it incorrectly calculated its discount percentage and therefore over-invoiced the SLP for all support requested and received during 	\$89,975	\$69,586	\$1,963	\$17,746	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
		<p>Funding Year (FY) 2016.</p> <ul style="list-style-type: none"> Beneficiary Did Not Receive an Approved Service Substitution. The Beneficiary obtained an unauthorized service substitution. Specifically, the Beneficiary contracted and was billed for three 250 Mbps Fiber Internet lines rather than the three 300 Mbps Fiber Internet lines approved by SLP without obtaining the SLP's approval prior to making the substitution. 					
Ysleta Independent School District	2	<ul style="list-style-type: none"> Beneficiary Over-Invoiced SLP for Ineligible Services. The Beneficiary invoiced USAC for the cost of ineligible voice services. 	\$5,203,253	\$2,945	\$2,945	\$0	N
Total	11		\$5,743,529	\$557,186	\$54,786	\$364,148	

*A Monetary effect that exceeds the USAC Management Recovery Action and/or Commitment Adjustment is the result of findings that did not warrant a recommended recovery or commitment adjustment.



Universal Service
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Eaton Academy

Limited Review Audit on Compliance with the Federal Universal Service
Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2016LR003

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EXECUTIVE SUMMARY

May 24, 2018

Ms. Kenis Wallevand, Superintendent
Eaton Academy
21450 Universal Avenue
Eastpointe, MI 48021

Dear Ms. Wallevand:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of Eaton Academy (Beneficiary), Billed Entity Number (BEN) 16057881, using the regulations and orders governing the Schools and Libraries Program, 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 the Beneficiary's management. IAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

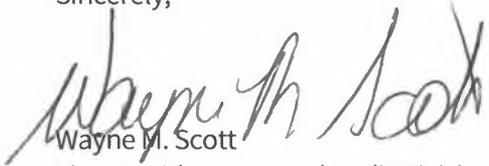
IAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that IAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, the type and amount of services received, as well as performing other procedures IAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for IAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings (Findings) and one other matter (Other Matter) as discussed in the Audit Results and Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of noncompliance with the Rules that were in effect during the audit period; an Other Matter is a condition that does not show evidence of noncompliance with the Rules, but warrants attention.

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 FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

We appreciate the cooperation and assistance extended by you and your staff during the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne M. Scott". The signature is written in a cursive style with a large, stylized "W" and "S".

Wayne M. Scott
Vice President, Internal Audit Division

cc: Radha Sekar, USAC Chief Executive Officer
Catriona Ayer, USAC Acting Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery (A)	Overlapping Recovery ¹ (B)	Total Recovery (A)-(B)	Recommended Commitment Adjustment (C)	Overlapping Commitment Adjustment (D)	Total Commitment Adjustment (C)-(D)
Finding #1: Central Islip Order, 26 FCC Rcd 8630, 8636-37, para. 14– Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process	\$332,902	\$47,314	\$0	\$47,314	\$332,902	\$0	\$332,902
Finding #2: Schools and Libraries’ Eligible Services List for Funding Year 2010, at 20 (2009) – Beneficiary Over-Invoiced SLP for Ineligible Services	\$47,314	\$47,314	\$47,314	\$0	\$0	\$0	\$0
Other Matter #1: FCC Form 500 Instructions, at 1 – Beneficiary Did Not Submit an FCC Form 500 to Reduce or Cancel a Funding Request Number	\$75,191	\$0	\$0	\$0	\$75,191	\$75,191	\$0
Total	\$455,407	\$94,628	\$47,314	\$47,314	\$408,093	\$75,191	\$332,902

¹ If a finding is subsequently waived via appeal, any overlapping recovery with that finding will be recovered with the remaining findings.

USAC MANAGEMENT RESPONSE

USAC Management concurs with the Audit Results stated above for Findings 1 and 2. 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 to USAC's website under Reference Area for "Invoicing – Applicants" available at (<http://www.usac.org/sl/applicants/step06/default.aspx>) and "Competitive Bidding" available at (<https://www.usac.org/sl/applicants/step01/default.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>).

Funding Request Number	USAC Recovery Action for Findings 1 and 2	USAC Commitment Adjustment for Findings 1 and 2
2062823	\$22,168	\$43,197
2062825	\$0	\$75,191
2062845	\$18,389	\$40,557
2062849	\$0	\$71,387
2062866	\$6,757	\$28,407
2062875	\$0	\$74,163
Total	\$47,314	\$332,902

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

The purpose of the audit was to determine whether the Beneficiary complied with the Rules.

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2010:

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$220,741	\$0
Basic Maintenance of Internal Connections	\$112,161	\$47,314
Total	\$332,902	\$47,314

Note: The amounts committed and disbursed reflect funding year activity as of the commencement of the audit.

The committed total represents one FCC Form 471 application with six Funding Request Numbers (FRNs). IAD selected the six FRNs, which represent \$332,902 of the funds committed and \$47,314 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2010 application submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a consortium of three charter schools located in and around Detroit, Michigan.

PROCEDURES

IAD performed the following procedures:

A. Application Process

IAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, IAD examined documentation to support its effective use of funding and that adequate controls exist to determine whether funds were used in accordance with the Rules. IAD used inquiry 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 funding was requested.

B. Competitive Bid Process

IAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible goods and services was the primary factor considered. IAD 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. IAD evaluated the equipment and services requested and purchased for cost effectiveness as well.

C. Invoicing Process

IAD obtained and examined invoices for which payment was disbursed by USAC to determine whether the equipment and services identified 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. IAD also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Beneficiary Location

IAD used inquiry and inspection of documentation to determine whether the equipment and services were located in eligible facilities and utilized in accordance with the Rules. IAD evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. IAD also evaluated the equipment and services purchased by the Beneficiary for cost effectiveness to determine whether funding was used in an effective manner.

E. Reimbursement Process

IAD obtained and examined invoices submitted for reimbursement for the equipment and services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, IAD reviewed invoices associated with the BEAR forms for equipment and services provided to the Beneficiary. IAD verified that the equipment and services identified 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 SLP Eligible Services List.

DETAILED AUDIT FINDINGS

Finding #1: *Central Islip Order*, 26 FCC Rcd 8630, 8636-37, para. 14– Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process

CONDITION

IAD examined documentation, including the Beneficiary's Technology Plan, the Beneficiary's communication with the Service Provider (JRME Enterprises, Inc. or JRME) prior to and during the competitive bidding process, and also made inquiries of the Beneficiary to determine whether the competitive bidding process undertaken by the Beneficiary to select a service provider was fair and open for Funding Year 2010 FRNs 2062823, 2062825, 2062845, 2062849, 2062866, and 2062875.

The Beneficiary identified itself as a consortium in its Funding Year 2010 FCC Form 470 and indicated that there were three eligible entities. In its FCC Form 471, Eaton Academy identified the three eligible entities as Weston Preparatory Academy (Weston), Dove Academy of Detroit (Dove), and Eaton Academy (Eaton). Through inquiries with the Beneficiary and an examination of documentation provided by the Beneficiary, IAD determined that JRME's Chief Executive Officer (CEO), Robert Matesic, was performing IT services as a consultant for the three schools since late 2001.² The Beneficiary and Service Provider continued extending the contract to provide the consultation services through February 17, 2010 when a new contract was executed to provide the services awarded for the FRNs identified above.

The Beneficiary posted its Funding Year 2010 FCC Form 470 requesting internal connections and basic maintenance of internal connections (BMIC) on January 13, 2010. The Beneficiary selected JRME as its service provider for the internal connections and BMIC services and executed a contract with JRME on February 17, 2010. JRME was the Beneficiary's existing information technology (IT) maintenance and help desk contractor for the three schools listed in the Beneficiary's Funding Year 2010 FCC Form 471 prior to and during the Beneficiary's competitive bidding process that was conducted in 2010.

IAD examined Weston's and Eaton's Technology Plans dated July 2008 to June 2011 and Eaton's Technology Plan dated September 2010 to September 2015. Mr. Matesic was identified in all three Technology Plans as a committee member of the Beneficiary's "Technology Planning Team" and he was listed as the Beneficiary's "Technology Resource Consultant." Among the Technology Plans' purposes is to develop and assess the Beneficiary's current and future technology needs³ and the Rules state that "an applicant's FCC Form 470 must be based upon its technology plan."⁴ Thus, IAD determined

² Consulting Services Contract between Eaton and JRME (December 1, 2001).

³ As stated in the Beneficiary's Technology Plans, "[t]he purpose of the committee is to offer guidance to the implementation of Eaton Academy's technology, technology literacy, and technology integration initiatives. This includes the development of district technology standards and expectations, acceptable use policies, and revisions of Eaton Academy's district technology plan." Eaton Academy Technology Plan, September 2010 to 2015.

⁴ *Requests for Review of Decisions of the Universal Service Administrator by Ysleta Independent School District et al.*, CC Docket No. 96-45 et al., Order, 27 FCC Rcd 26407, 26420-21, para. 31 (2003) ("An applicant's FCC Form 470 must be based upon its technology plan and must detail specific services sought in a manner that allows bidders to understand the specific technologies that the applicant is seeking.").

that Mr. Matesic's participation in the Beneficiary's Technology Plans and its submission of a bid for internal connections and BMIC services compromised the Beneficiary's competitive bidding process that was conducted in 2010.⁵

Given that JRME assisted in the development of the Beneficiary's technological environment, which is the basis for the Beneficiary's technology needs requested in its FCC Form 470, JRME had inside information of the Beneficiary's technological environment. Having access to this information allowed JRME to (1) be in a unique position to exert influence in the Beneficiary's completion of its FCC Form 470 and (2) provided JRME inside knowledge of the Beneficiary's technological environment that was not available to other potential bidders when submitting its (winning) bid for internal connections and BMIC, which created an unfair competitive advantage for JRME.⁶ For these reasons, IAD determined that the Beneficiary did not conduct a fair and open competitive bidding process.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing a fair and open competitive bidding process. The Beneficiary was unaware that a service provider cannot be involved with the Beneficiary's technology plan.

EFFECT

The monetary effect of this finding is \$332,902, which represents the total SLP support committed for the following FRNs:

FRN	Service	Amounts Committed by SLP	Amounts Disbursed by SLP
2062823	Basic Maintenance of Internal Connections	\$43,197	\$22,168
2062825	Internal Connections	\$75,191	\$0
2062845	Basic Maintenance of Internal Connections	\$40,557	\$18,389
2062849	Internal Connections	\$71,387	\$0
2062866	Basic Maintenance of Internal Connections	\$28,407	\$6,757
2062875	Internal Connections	\$74,163	\$0
Total		\$332,902	\$47,314

RECOMMENDATION

IAD recommends USAC management seek recovery of \$47,314. This amount represents the total amount disbursed for the FRNs identified in the Effect section above. IAD also recommends USAC management issue a commitment adjustment to rescind the \$332,902 committed for the FRNs identified in the Effect section above. The Beneficiary must conduct a fair and open competitive bidding process, including ensuring that a potential service provider has not assisted in the development of the Beneficiary's technological environment. In addition, the Beneficiary should take advantage of the training and outreach available on USAC's website at <http://www.usac.org/sl/about/outreach/default.aspx>.

⁵ *Requests for Review of Decisions of the Universal Service Administrator by Central Islip Free Union School District, et al.*, CC Docket No. 02-6, Order, 26 FCC Rcd 8630, 8636-37, para. 14 (2011) ("A person assisting in the preparation of a technology plan can influence the products and services that are requested. When an applicant allows an entity to formulate a technology plan and also participate in the competitive bidding process as a prospective service provider, the applicant impairs its ability to hold a fair and open competitive bid process.") (citing to *Request for review of Decisions by the Universal service Administrator by MasterMind Internet Services*, CC Docket No. 96-45, Order, 16 FCC Rcd 4028, 4032-33 (2000)).

⁶ *Id.*

BENEFICIARY RESPONSE

Eaton Academy disagrees with USAC's recommendation for recovery of full funding. Although we were not aware of a conflict with the Technology Plan, in this instance, it is not such an egregious error to justify denial of funding. In July 2008, the Academy did not know that it would participate in erate in January of 2010. The Sept 2010 Tech Plan was updated AFTER the bidding process and therefore should not be considered. The July 2008 Tech Plan was developed two years prior to erate participation. The Tech Plan was a public document for which ANY bidder had access to. The information in the Tech Plan, if read in its entirety, is general and provided absolutely no advantage to JRME. The obvious fact is that JRME did have an advantage because they were the incumbent service provider since 2000, for ten years. The Tech Plan did not give them intimate knowledge of our technology or needs; their on-site services did. But, since there is no rule against an incumbent provider bidding or winning, find the needle in the haystack to make it so.

As stated before, JRME did not increase their rates from 2000. They were forced to bid when the Academy elected to participate in erate. JRME was the cheaper vendor, which is the whole point of bidding, correct? To have eliminated them from the bidding for participation in the 2008 Tech Plan, for the ridiculous notion that their participation somehow gave them an unfair advantage....when their 10 year tenure did not....would have resulted in higher costs to the Academy and ultimately the Government. But apparently, that was what we were supposed to do.

Your statement: **"The Beneficiary must conduct a fair and open competitive bidding process, including ensuring that a potential service provider has not assisted in the development of the Beneficiary's technological environment"** cannot be accomplished if USAC allows an incumbent service provider to bid and win. All schools who select their incumbent provider will fail this test. USAC should just state it plain and simple....incumbent providers can't participate. It would have saved our small school, with a small staff, and stretched resources, hundreds of hours of work. I am absolutely baffled by what USAC read in our Tech Plan, which I am assuming they did, that caused them to reach this conclusion.

IAD RESPONSE

In its response, the Beneficiary states that "[a]ll schools who select their incumbent provider will fail" the requirement that the Beneficiary ensure "that a potential service provider has not assisted in the development of the Beneficiary's technological environment." IAD does not concur with this statement. It is common for applicants in the SLP to select their incumbent service providers. Even with this common practice, the Beneficiary must ensure the competitive bidding process is fair and open. In addition to its service provider role to install internal connections equipment and provide basic maintenance of internal connections, the Service Provider also assisted with the development and design of the Beneficiary's IT environment), thereby giving the Service Provider an intimate knowledge of the network design and placing the Service Provider in a position to exert influence in the design to provide the Service Provider a competitive advantage.

IAD acknowledges that incumbent service providers may have a more thorough understanding of the SLP applicant's IT environment; however, service providers cannot have developed and designed the IT environment prior to the submission of the FCC Form 470 in which it is submitting a bid in response. The Rules are clear when it states "[a] person assisting in the preparation of a technology plan can influence the products and services that are requested [and] [w]hen an applicant allows an entity to formulate a technology plan and also participate in the competitive bidding process as a prospective service provider, the applicant impairs its ability to hold a fair and open competitive bidding process."⁷

⁷ *Central Islip Order*, 26 FCC Rcd at 8636-37, para. 14.

The Beneficiary's Technology Plans for Weston and Eaton were dated July 1, 2008 through June 30, 2011 and, therefore, effective during Funding Year 2010, the year in which the Service Provider was selected to provide equipment and services in response to the Beneficiary's FCC Form 470 that was posted on January 13, 2010. Robert Matesic, the Service Provider's CEO, is listed as a committee member in the Technology Plan with the title Technology Resource Consultant. Further, as the Beneficiary asserts, "[t]he Tech Plan was a public document for which ANY bidder had access to." Potential bidders could have been deterred from bidding upon reading Mr. Matesic's name included in the Beneficiary's Technology Plans. Thus, the Beneficiary impaired its ability to hold a fair and open competitive bid process.

For these reasons, IAD's position on this finding remains unchanged.

Finding #2: Schools and Libraries' Eligible Services List for Funding Year 2010, at 20 (2009)
– Beneficiary Over-Invoiced SLP for Ineligible Services

CONDITION

IAD examined documentation, including the FCC Form 472 Billed Entity Applicant Reimbursement (BEAR) Forms, service provider bills provided by the Beneficiary, maintenance logs provided by the Beneficiary, and also made inquiries of the Beneficiary to determine whether SLP was invoiced only for eligible services for FRNs 2062823, 2062845, and 2062866.

The service provider bills provided to the Beneficiary contained charges for categories of service including computer support, server support, telephone support, email support, and other types of services. IAD compared the pre-discounted costs charged on the service provider bills to the pre-discounted costs noted in the BEARs submitted by the Beneficiary to SLP, and determined that SLP was invoiced only for the computer support services. IAD examined the maintenance logs, which contained descriptions of the services assigned to the computer support category on the service provider bills and determined that these services were ineligible for SLP support.⁸ Services in the maintenance logs that were assigned to the computer support category included the following:

- Setting up email user accounts,
- Setting up and upgrading laptops,
- Removing computer viruses,
- Installing and upgrading computer software,
- Maintenance on end-user equipment, and
- Assisting with the Beneficiary's SLP application.⁹

In addition, the maintenance services were provided by JRME's Chief Executive Officer, Mr. Matesic, who provided routine on-site technical support. Mr. Matesic had a designated work space at all three of the Beneficiary's school locations. The Beneficiary informed IAD that "[e]ach school had a server room with a small work space, however [Mr. Matesic's] biggest space was located in Weston [Preparatory Academy] where most of his tools and equipment were located [and Mr. Matesic] traveled to the schools almost daily."¹⁰

⁸ *Instructions for Completing the Universal Service for Schools and Libraries Billed Entity Applicant Reimbursement (BEAR) Form*, Apr. 2007, (OMB 3060-0856), at 6 (*FCC Form 472 Instructions*).

⁹ The Service Provider's assistance with the Beneficiary's SLP application occurred subsequent to the submission of the Beneficiary's FCC Form 471 for Funding Year 2010 and, therefore, was not assistance provided for the Beneficiary's application for the funding year subject to this audit.

¹⁰ Email to IAD from Susan Diehl, Business Manager of Eaton Academy (Jul. 28, 2016).

For the reasons above, IAD determined that SLP was invoiced for ineligible services because (1) maintenance services invoiced to SLP were not performed on SLP eligible components and (2) JRME provided on-site technical support and help desk support that provided a comprehensive level of support beyond basic maintenance of only eligible components.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the eligibility of basic maintenance of internal connections services. The Beneficiary was not aware that the services in question were ineligible and could not be included on the BEAR form for reimbursement. Further, the Beneficiary did not perform adequate research and did not seek appropriate assistance, including taking advantage of the training and outreach available on USAC’s website, to determine the services that are eligible for SLP support.

EFFECT

IAD identified minimal instances of maintenance performed on eligible equipment. However, in those instances, the services were also performed with other ineligible services and the descriptions in the maintenance logs did not differentiate between the hours spent on eligible maintenance and ineligible maintenance. Thus, the Beneficiary and IAD was unable to determine the amount of hours and the associated costs in providing eligible BMIC services. For these reasons, the monetary effect of this finding is \$112,161, which represents the total SLP support committed for the following FRNs:

FRN	Service	Amount Committed by SLP	Amount Disbursed by SLP
2062823	Basic Maintenance of Internal Connections	\$43,197	\$22,168
2062845	Basic Maintenance of Internal Connections	\$40,557	\$18,389
2062866	Basic Maintenance of Internal Connections	\$28,407	\$6,757
Total		\$112,161	\$47,314

RECOMMENDATION

IAD recommends USAC management seek recovery of \$47,314. This amount represents the total amount disbursed for the FRNs identified in the Effect above. IAD also recommends USAC management issue a commitment adjustment to rescind the \$112,161 committed for the FRNs identified in the Effect above. The Beneficiary must ensure controls and procedures are in place to examine the Schools and Libraries Program Eligible Services List and ensure that SLP is invoiced only for eligible services received.

BENEFICIARY RESPONSE

No comment as USAC has recommended denial of all funding for another transgression.

Other Matter #1: FCC Form 500 Instructions, at 1 – Beneficiary Did Not Submit an FCC Form 500 to Reduce or Cancel a Funding Request Number

CONDITION

For FRN 2062825, the Beneficiary informed IAD that “Weston Academy¹¹ terminated its contract with JRME before the project was completed and refused to allow JRME to complete the installation and equipment substitution documentation.”¹² No funds have been disbursed by SLP for FRN 2062825 and the Beneficiary acknowledged that the “deadline for submitting a service substitution request expired [and that] no funds can ever be requested.”¹³ However, the Beneficiary did not submit an FCC Form 500 to reduce or cancel the FRN after terminating the contract with JRME for these services.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the process to submit a FCC Form 500 to cancel or reduce an FRN amount. The Beneficiary has not conducted research of the information available on USAC’s website to become familiar with the Rules.

EFFECT

The monetary effect of this Other Matter is \$75,191. This amount represents the total amount committed by SLP for FRN 2062825.

RECOMMENDATION

IAD recommends SLP conduct outreach to determine whether a commitment adjustment is necessary for the \$75,191 committed for FRN 2062825. The Beneficiary must assess whether it should submit a FCC Form 500 when it needs to cancel a funding request or when it becomes aware that the amount of funds committed by SLP should be reduced. In addition, the Beneficiary should take advantage of the training and outreach available on USAC’s website at <http://www.usac.org/sl/about/outreach/default.aspx>.

BENEFICIARY RESPOSNE

No comment as USAC has recommended denial of all funding for another transgression.

¹¹ Eaton Academy identified itself on its FCC Form 470 as a consortium consisting of Weston Preparatory Academy, Dove Academy of Detroit, and Eaton Academy.

¹² Email to IAD from Susan Diehl, Business Manager of Eaton Academy (Nov. 16, 2016).

¹³ *Id.*

CRITERIA

Finding	Criteria	Description
#1	<i>Requests for Review of Decisions of the Universal Service Administrator by Central Islip Free Union School District, et al., CC Docket No. 02-6, Order, 26 FCC Rcd 8630, 8636-37, para. 14 (2011) (Central Islip Order).</i>	A person assisting in the preparation of a technology plan can influence the products and services that are requested. When an applicant allows an entity to formulate a technology plan and also participate in the competitive bidding process as a prospective service provider, the applicant impairs its ability to hold a fair and open competitive bidding process.
#1	<i>Request for Review of a Decision of the Universal Service Administrator by Mastermind Internet Services, Inc. CC Docket No. 96-45, Order, 16 FCC Rcd. 4028, 4032, para. 10 (2000) (Mastermind Order).</i>	[A]n applicant violates the Commission's competitive bidding requirements when it surrenders control of the bidding process to a service provider that participates in that bidding process.
#1	<i>Request for Review of a Decision of the Universal Service Administrator by Lazo Technologies, Inc., et al., CC Docket No. 02-6, Order, 24 FCC Rcd 10675, 10676, para. 5 (2009) (Lazo Order).</i>	A fundamental requirement of the E-rate program is that solicitation for services be based on a fair and open competitive bidding process that is free from conflicts of interest.
#1	<i>Requests for Review of Decisions of the Universal Service Administrator by Ysleta Independent School District et al., CC Docket No. 96-45 et. al., Order, 18 FCC Rcd 26407, 26420-21, para. 31 (2003).</i>	[A]n applicant's FCC Form 470 must be based upon its technology plan and must detail specific services sought in a manner that allows bidders to understand the specific technologies that the applicant is seeking.

#2	Schools and Libraries' Eligible Services List for Funding Year 2010, at 20-21 (2009)	<p>The following products and services are NOT ELIGIBLE:</p> <ul style="list-style-type: none"> • On-site technical support (i.e., contractor duty station at the applicant site) when off-site technical support can provide basic maintenance on an as-needed basis. • Services such as network management and 24-hour network monitoring. • Help desks that provide a comprehensive level of support beyond basic maintenance of only eligible components. • Technical support contracts that are more than basic maintenance....” <p>Eligible basic maintenance does not include services to maintain ineligible equipment, to enhance the utility of equipment beyond the transport of information, or to provide diagnostic services in excess of those necessary to maintain the equipment’s ability to transport information.</p>
#2	Schools and Libraries' Eligible Services List for Funding Year 2010, at 20 (2009)	<p>Necessary basic maintenance services are defined as follows: “but for the maintenance at issue, the connection would not function and serve its intended purpose with the degree of reliability ordinarily provided in the marketplace to entities receiving such services without E-rate discounts.” The following maintenance services are eligible:</p> <ul style="list-style-type: none"> • Repair and upkeep of eligible hardware • Wire and cable maintenance • Basic technical support • Configuration changes <p>Basic maintenance is eligible for discount only if it is a component of a maintenance agreement or contract for eligible components.</p>
#2	<i>Instructions for Completing the Universal Service for Schools and Libraries Billed Entity Applicant Reimbursement (BEAR) Form, Apr. 2007, (OMB 3060-0856), at 6 (FCC Form 472 Instructions)</i>	<p>The discount amount represents the total amount of funds for which you are seeking reimbursement – that is, your discounted portion of Column (14). Before applying the approved discount percentage to the amount in Column (14), you must deduct charges for any ineligible services, or for eligible services delivered for ineligible recipients or used for ineligible purposes.</p>

Other Matter	Criteria	Description
#1	<i>Instructions for Completing the Universal Service for Schools and Libraries Adjustment of Funding Commitment and Modification to Receipt of Service Confirmation Form, Apr. 2007, (OMB 3060-0853), at 1 (FCC Form 500 Instructions)</i>	<p>The FCC Form 500, Adjustment to Funding Commitment and Modification to Receipt of Service Confirmation Form, is used by the Billed Entity who filed an FCC Form 471, Services Ordered and Certification Form, on behalf of an eligible school, library, library consortium or consortium of multiple entities, and who received a commitment of funds to inform the fund administrator, the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), that it wishes to reduce the funding commitment amount on the Funding Request Number (FRN) level, or about a modification in the beginning or ending date for services received during the funding year.</p> <p>The [FCC] Form 500 must be filed to accomplish the following:</p> <ul style="list-style-type: none"> - To adjust the Funding Year Service Start Date reported on a previously filed [FCC] Form 486 for this Funding Year - To adjust the Contract Expiration Date listed on your [FCC] Form 471 application for this Funding Year - To cancel irrevocably and totally a Funding Request Number (FRN) - To reduce irrevocably the amount of a Funding Request Number (FRN)