Briefing book excludes all materials discussed in Executive Session.

Schools & Libraries Committee Meeting

Audit Briefing Book

Monday, October 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

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports: July 1, 2018 – July 31, 2018

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Brownsville Independent School District, Texas **(Attachment A)**	1	• **Inadequate Competitive Bid Evaluation.** The Beneficiary did not demonstrate that it conducted a proper competitive bid evaluation and selected the most cost-effective service provider using price of the eligible services as the primary factor.	$3,395,401	$635,040	$635,040	$635,040	Y
Kansas City Unified School District, Kansas	0	• Not applicable.	$0	$0	$0	$0	N
Total	**1**		**$3,395,401**	**$635,040**	**$635,040**	**$635,040**	

Universal Service
Administrative Co.

Brownsville Independent School District

Limited Review Audit on Compliance with the Federal Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR003

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Universal Service Administrative Co.

EXECUTIVE SUMMARY

July 30, 2018

Dr. Esperanza Zendejas, Superintendent
Brownsville Independent School District
1900 E. Price Rd #307
Brownsville, TX 78521

Dear Dr. Zendejas:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of Brownsville Independent School District (Beneficiary), Billed Entity Number (BEN) 141638, using the regulations and orders governing the federal Universal Service 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, data used to calculate the discount percentage and the type and amount of services received, physical inventory of equipment purchased and maintained, 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 one detailed audit finding (Finding) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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,

for

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	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.511(a) - Inadequate Competitive Bid Evaluation. The Beneficiary did not demonstrate that it conducted a proper competitive bid evaluation and selected the most cost-effective service provider using price of the eligible services as the primary factor.	$635,040	$635,040	$635,040
Total Net Monetary Effect	**$635,040**	**$635,040**	**$635,040**

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount.
USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC directs the Beneficiary to USAC's website under "Reference Area" for guidance on competitive bidding available at (https://www.usac.org/sl/applicants/step01/default.aspx) and the bid evaluation process available at (https://www.usac.org/_res/documents/sl/pdf/samples/Bid-Evaluation-Matrix.pdf).

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).

FRN	Recovery Amount
2831748	$635,040

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 2015 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	$2,845,953	$67,681
Internet Access	$2,536,088	$2,536,088
Telecommunications	$407,578	$407,578
Voice	$384,054	$384,054
Total	**$6,173,673**	**$3,395,401**

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

The committed total represents three FCC Form 471 applications with nine Funding Request Numbers (FRNs). IAD selected four FRNs, which represent $5,189,431 of the funds committed and $2,411,159 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2015 applications submitted by the Beneficiary.

BACKGROUND
The Beneficiary is a public school district located in Brownsville, Texas that serves over 48,000 students.

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 SLP funds were used in accordance with the Rules. IAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

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. Site Visit
IAD 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. 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 to determine whether funding was and/or will be used in an effective manner.

D. 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), FCC Form 474 Service Provider Invoices (SPIs) 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.

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 and SPI forms for equipment and services provided to the Beneficiary. IAD 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 eligible in accordance with the SLP Eligible Services List.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.511(a) - Inadequate Competitive Bid Evaluation

CONDITION

IAD obtained and examined documentation, including the Beneficiary's Request for Proposals (RFPs), the Service Providers' bid proposals responding to the requested services, and the Beneficiary's bid evaluation matrices, to determine whether the Beneficiary carefully considered all bids and selected the most cost effective offering using price of the eligible goods and services as the primary factor for FRN 2831748. In its FCC Form 470, the Beneficiary requested Internet access services for 20 Mbps, 60 Mbps, and 100Mbps. The Beneficiary received and evaluated bid proposals submitted by AT&T, Cogent, Foremost, Smartcom, and Time Warner. IAD determined through an examination of the documentation and inquiries made with the Beneficiary that the Beneficiary did not demonstrate that it conducted an adequate competitive bid evaluation and selected the most cost-effective service provider.

IAD examined the Beneficiary's bid matrices and determined that the Beneficiary's selection criteria included (1) price, (2) the Service Provider's ability to understand the needs of the Beneficiary, (3) prior experience with the Service Provider, (4) the qualifications of the Service Provider personnel to provide the services to the Beneficiary, and (5) the financial stability of the Service Provider. The Beneficiary scored the bids as follows:

Selection Criteria	Points Available	AT&T	Cogent	Foremost	Smartcom	Time Warner
Price	35%	1.4 (35%*4)	1.4 (35%*4)	1.4 (35%*4)	1.4 (35%*4)	1.05 (35%*3)
Understanding of Needs	5%	.15 (5%*3)	.05 (5%*1)	.25 (5%*5)	.25 (5%*5)	.2 (5%*4)
Prior Experience	20%	.20 (20%*1)	.20 (20%*1)	1 (20%*5)	1 (20%*5)	1 (20%*5)
Qualifications	10%	.5 (10%*5)	.4 (10%*4)	.5 (10%*5)	.5 (10%*5)	.5 (10%*5)
Financial Stability	25%	1.25 (25%* 5)	1.25 (25%* 5)	1.25 (25%* 5)	1.25 (25%* 5)	1.25 (25%* 5)
Total		**3.5**	**3.3**	**4.4**	**4.4**	**4.0**

The per location costs that were quoted by the Service Providers for a one-year term were as follows:

Service	AT&T	Cogent	Foremost	Smartcom	Time Warner
20 Mbps Internet	$3,209	N/A	N/A	N/A	N/A
50 Mbps Internet	N/A	$1,885	N/A	N/A	N/A
60 Mbps Internet	$6,239	N/A	N/A	N/A	N/A
100 Mbps Internet	$8,927	$2,125	N/A	$3,199	N/A

The per location costs that were quoted by the Service Providers for a two-year term were as follows:

Service	AT&T	Cogent	Foremost	Smartcom	Time Warner
20 Mbps Internet	$1,067	N/A	N/A	N/A	N/A
50 Mbps Internet	N/A	$1,702	N/A	N/A	N/A
60 Mbps Internet	$1,446	N/A	N/A	N/A	N/A
100 Mbps Internet	$1,782	$1,942	N/A	N/A	N/A

The per location costs that were quoted by the Service Providers for a three-year term were as follows:

Service	AT&T	Cogent	Foremost	Smartcom	Time Warner
20 Mbps Internet	$1,067	N/A	$3,650	N/A	N/A
50 Mbps Internet	N/A	$1,652	N/A	N/A	N/A
60 Mbps Internet	$1,446	N/A	$4,400	N/A	N/A
100 Mbps Internet	$1,782	$1,892	$5,350	N/A	N/A

The per location costs that were quoted by the Service Providers for a five-year term were as follows:

Service	AT&T	Cogent	Foremost	Smartcom	Time Warner
20 Mbps Internet	N/A	N/A	N/A	N/A	N/A
50 Mbps Internet	N/A	N/A	N/A	N/A	N/A
60 Mbps Internet	N/A	N/A	N/A	N/A	$4,900
100 Mbps Internet	N/A	N/A	N/A	N/A	N/A

In its FCC Form 471, the Beneficiary requested SLP support for 60 Mbps dedicated Internet access for FRN 2831748. AT&T, Foremost, and Time Warner submitted bids that included costs for 60 Mbps of Internet access services. In its bid evaluation, the Beneficiary awarded Foremost and AT&T four out of five points in the price criterion even though Foremost's bid of $4,400 was approximately three times more expensive than AT&T's bid of $1,446. While the Beneficiary's bid evaluation matrix demonstrated that price was the primary factor, the Beneficiary did not award the Service Provider that bid the lowest cost for 60 Mbps of Internet access services (AT&T) with the most favorable score for the price criterion. Rather, the Beneficiary awarded the Service Provider that bid a much higher cost for 60 Mbps of Internet access services (Foremost) with the same score in the price criterion as the Service Provider that bid the lowest cost for 60 Mbps of Internet access services (AT&T).

In addition, Foremost and Smartcom[1] both received the highest total score of 4.4. However, the Beneficiary did not select either Service Providers' proposal as the winning bid. Instead, the Beneficiary selected Time Warner's proposal as the winning bid although Time Warner offered the most expensive cost for the 60 Mbps of Internal access services and received the third highest total score (i.e., a total score of 4.0).

Further, on December 4, 2014, the Beneficiary executed a contract amendment with Time Warner to increase the Internet access services to 100 Mbps. All five service providers offered 100 Mbps of internet access services. While AT&T bid the lowest cost for 100 Mbps and Smartcom was awarded the highest total score of 4.4 (tied with Foremost), the Beneficiary selected Time Warner as the winning bid.

Because the Beneficiary did not (1) award the most favorable score in the price criterion to the lowest cost Service Provider and (2) did not select the Service Provider that received the most favorable total overall points, the Beneficiary did not demonstrate that it conducted a proper competitive bid evaluation and selected the most cost-effective Service Provider using price of the eligible services as the primary factor for FRN 2831748.

[1] Smartcom did not submit a bid for the requested Internet access services of 60 Mbps.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the competitive bidding rules and selection of the most cost-effective sevice offering using price of the eligible goods and services as the primary factor. The Beneficiary performed one bid evaluation process and included all Service Providers for all Internet access speeds collectively even though it intended to select different service speeds of service. This resulted in the Beneficiary not awarding the most favorable score in the price criterion to the lowest cost service provider and selecting a service provider that did not receive the most favorable total overall score for FRN 2831748.

EFFECT

The monetary effect of this finding is $635,040. This amount represents the total amount disbursed by SLP for FRN 2831748.

RECOMMENDATION

IAD recommends USAC management seek recovery of $635,040. The Beneficiary must implement controls and procedures to ensure it carefully considers all bid proposals and selects the most cost-effective service offering, using price of the eligible goods and services as the primary factor considered. IAD also recommends the Beneficiary examine the Rules to familiarize itself with the Rules governing competitive bidding, and carefully considering all bids received and selecting the most cost-effective service offering using the prices of the eligible services as the primary factor.

BENEFICIARY RESPONSE

In response to your review, BISD does have sufficient knowledge of the Rules governing competitive bidding and rules as [*sic*] selection for prospective vendors.

BISD does have the understanding that cost is to be the greatest cost factor when selecting a vendor. In addition, prior experience is very important when it comes to the quality of service to all our campuses. During the time in question, the quality of service that we currently had with AT&T was not very reliable. Due to the fact we were using their gigaman circuits to transport [I]nternet services to each of our locations, we had issues with their reliability. When a district of our size relies on technology and the uptime of [I]nternet service, any down time is detrimental to our district. (Communication, safety, etc).

In your findings, it was stated that we increased the Time Warner locations from 60 Mbps to 100 Mbps. That was not the case, in speaking with Time Warner, it was agreed upon between the two parties to bring all of the sites back to the core as one [I]nternet pipe that the campuses would share with no increase in cost. In doing so, we were able to save money by disconnecting the AT&T gigaman circuits that would no longer be needed for those locations.

IAD RESPONSE

The Beneficiary states in its response that it "does have the understanding that cost is to be the greatest cost factor when selecting a vendor". IAD acknowledges that the Beneficiary's bid evaluation matrix demonstrated that price was the primary factor (i.e., the highest weight given at 35%); however, the Beneficiary did not award the Service Provider that bid the lowest cost for 60 Mbps of Internet access services (AT&T) with the most favorable score for the price criterion. Also in its response, the Beneficiary states that "prior experience is very important when it comes to the quality of service to all our campuses." IAD acknowledges that the Beneficiary awarded AT&T a poor score (1 out of a possible 5) in the prior experience criterion to reflect the Beneficiary's belief that "AT&T was not very reliable." However, this does not resolve the fact that the Beneficiary's bid evaluation matrix does not demonstrate that the Beneficiary selected the most cost-effective alternative using price as the primary factor.

In its response, the Beneficiary states that the increase from 60 Mbps to 100 Mbps at the Time Warner locations "was not the case [and] it was agreed upon between [the Beneficiary and Time Warner] to bring all of the sites back to the core as one [I]nternet pipe that the campuses would share..." IAD examined documentation and concurs with the Beneficiary's statement. However, this does not resolve the fact that the Beneficiary awarded Foremost and AT&T an identical four out of a possible five points in the price criterion even though Foremost's bid for 60 Mbps monthly recurring costs of $4,400 for three years was approximately three times more expensive than AT&T's bid for 60 Mbps monthly recurring costs of $1,446 for three years. While the Beneficiary's bid evaluation matrix identifies price as the heaviest weighted factor, the Beneficiary did not award the service provider that bid the lowest cost for 60 Mbps of Internet access services (AT&T) with the most favorable score for the price criterion. In addition, the Beneficiary awarded the service to a service provider (Time Warner) that received a less favorable overall score (4.0) than alternative service providers (Foremost and Smartcom) that both received a more favorable overall score (4.4).

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

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.511(a) (2014)	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.

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports: August 1, 2018 – August 31, 2018

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
Hillel Academy **(Attachment B)**	5	• **FCC Form 474 (Service Provider Invoice (SPI)) Service Provider Over-Invoiced SLP for Services Not Provided.** The Service Providers did not have processes in place to ensure that they invoiced the SLP for services only after they had rendered, delivered, and properly billed the services. • **Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process.** The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the competitive bidding process as it did not properly solicit bids when significant changes were made to its requirements. • **Lack of Documentation - Service Provider Did Not Demonstrate that Invoiced Services were Provided.** The Beneficiary did not have processes in place to contact SLP for assistance during the application process to ensure	$66,605	$116,878	$59,216	$61,827	Y

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		accurate FCC Form 471 requests. The consultant also stated that the service providers' invoices are not consistent with the contracts; however, the Beneficiary will require them to be consistent in the future.					
Lyndon Institution Inc.	5	• **Inadequate Discount Calculation Process – Used an Alternative Mechanism That Was Not Federally Approved.** The Beneficiary used a different consultant during funding year (FY) 2016 and underwent turnover in the staff responsible for performing the discount calculation. The Beneficiary did not have adequate controls in place to ensure that it used an appropriate calculation methodology that complied with the Rules. • **Beneficiary Over-Invoiced SLP for Ineligible Services and/or Equipment.** The Beneficiary did not have adequate controls in place to ensure that it invoiced the SLP accurately and in accordance with	$73,633	$100,939	$56,116	$79,636	N

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		the SLP requirements. The Beneficiary's invoices to the SLP included costs for ineligible services. • **FCC Form 472 Instructions, at 3 – Beneficiary Over-Invoiced SLP for Services Not Provided.** The Beneficiary did not have adequate controls in place to ensure that it invoiced the SLP accurately and in accordance with the SLP requirements. The Beneficiary invoiced for the approved FCC Form 471 amounts each month, instead of for the actual charges incurred. • **Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Locations.** The Service Provider invoiced the SLP for services delivered to ineligible dormitory locations. • **Beneficiary Over-Invoiced SLP Support for Services Delivered to Ineligible Locations.** The Beneficiary invoiced the SLP for services delivered to ineligible					

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		locations including dormitories and school administrators' homes.					
Chabad Hebrew Academy **(Attachment C)**	8	• **FCC Form 474 Instructions, at 3 – Service Provider Over-Invoiced for Ineligible Services and Equipment.** The Beneficiary did not have adequate processes in place to maintain the required documentation and did not have sufficient knowledge of the requirements for requesting basic maintenance of internal connections (BMIC) services under the FCC Form 471 approval process. • **FCC Form 474 Instructions – Service Provider Over-Invoiced SLP for Services Not Provided.** The Beneficiary did not have processes in place to ensure that USAC was invoiced for services only after services were rendered, delivered, and properly billed by its Service Providers. • **Beneficiary Over-Invoiced SLP for Ineligible Services.** The Beneficiary did not have processes in place to ensure that the Billed	$138,408	$328,666	$138,408	$161,509	Y

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		Entity Applicant Reimbursement Forms (BEARs) were in compliance with SLP requirements and that it understood eligibility guidelines. In addition, the Beneficiary did not ensure that all services requested met eligibility requirements under the SLP Rules. • **Beneficiary Did Not Pay Service Provider Bills Before Invoicing SLP.** The Beneficiary did not have controls in place to ensure that it paid the Service Provider for the services in full before invoicing the SLP. • **Beneficiary Over-Invoiced SLP for Services Delivered to Ineligible Locations and for Ineligible Students.** The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices for services approved by the SLP. In addition, the Beneficiary did not have controls in place to ensure that it did not request reimbursement for cancelled FRNs.					

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		• **FCC Form 474 Instructions at 3 – Service Provider Over-Invoiced SLP for Services Not Requested by the Beneficiary.** The Beneficiary did not have sufficient processes in place to ensure that USAC was invoiced for services requested per the approved FCC Form 471 or that a service substitution was submitted, as required by the Rules. • **Beneficiary Over-Invoiced SLP for Duplicate Services.** The Beneficiary was unable to provide clear and complete explanations or evidence regarding its multiple requests for similar services and did not demonstrate sufficient understanding of the SLP Rules. • **Improperly Calculated Discount.** The Beneficiary did not understand that the sample survey included on the SLP website was provided for Beneficiaries to send to enrolled families, not to be used as an eligibility table to determine whether students were eligible					

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		under the National School Lunch Program (NSLP).					
Cheder Menachem Mendel **(Attachment D)**	4	• **FCC Form 474 (SPI) User Guide, at 3 – Service Provider Over-Invoiced SLP for Services Not Provided.** The Beneficiary's service providers invoiced SLP prior to rendering recurring services. • **Lack of Documentation - Service Provider Did Not Demonstrate Billed Services were Provided.** The Service Provider invoiced the SLP for services but could not provide evidence that the services were delivered to the Beneficiary as approved on its FCC Form 471. • **FCC Form 474 (SPI) User Guide, at 3 - Beneficiary Over-Invoiced SLP for Unapproved, Ineligible Services.** The Service Provider invoiced for services that were not supported as eligible managed internal broadband services (MIBS).	$130,497	$154,875	$94,125	$94,125	Y
Hebrew Academy	7	• **FCC Form 474 (SPI) - Service Provider Over-Invoiced SLP for**	$96,058	$201,215	$94,088	$107,621	Y

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
(Attachment E)		**Services Not Provided.** The Service Provider invoiced the SLP for services that had not been delivered to the Beneficiary at the time of invoicing SLP. • **Lack of Documentation – Service Provider Did Not Demonstrate Invoiced Services were Provided.** The Service Providers invoiced SLP for services but could not provide evidence that the services had been delivered to the Beneficiary at the time of invoicing SLP. • **Service Provider Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students.** The Service Provider invoiced the SLP for ineligible locations, and did not allocate costs for ineligible students. • **Beneficiary Did Not Conduct a Fair and Open Bidding Process.** The Beneficiary did not conduct a fair and open competitive bidding process as it did not properly					

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		solicit bids when cardinal changes were made to its requirements. • **Beneficiary Over-Invoiced SLP for Duplicate Services.** The Beneficiary requested duplicative funding for voice services. Specifically, the Beneficiary requested all of its internet access and telecommunications services under one FCC Form 470.					
Collier High School **(Attachment F)**	1	• **Beneficiary Requested Duplicative Services.** The Beneficiary submitted requests for duplicative voice services and duplicative internet access services.	$0	$17,507	$0	$0	Y
Anshei Lubavitch Preschool **(Attachment G)**	7	• **Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471.** The Beneficiary did not maintain documentation to support its student enrollment and eligibility on its FY 2016 FCC Form 471. • **Beneficiary Could Not Support Students Counts for Category 2 Budget.** The Beneficiary was	$31,356	$156,421	$31,356	$35,084	Y

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		unable to support its budget for Category 2 (C2) funding because it did not retain documentation to support its student enrollment and eligibility data for FY 2016. • **Service Provider Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students.** The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices by the Service Provider for services approved by the SLP. • **FCC Form 474 (SPI) User Guide – Service Provider Over-Invoiced for Ineligible Services and Equipment.** Service Provider invoiced for services that were not supported as eligible MIBS. The approved FCC Form 470 described the services as “Managed Internal Broadband Services: Existing Equipment,” while the Form 471 described the services as “Managed Internal Broadband Services.					

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		• **FCC Form 474 (SPI) User Guide - Service Provider Over-Invoiced SLP for Services Not Provided.** The Beneficiary's Service Providers invoiced the SLP for the full contract amount prior to rendering recurring services. • **Beneficiary Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students.** The Beneficiary invoiced the SLP for ineligible locations and did not allocate costs for ineligible students.					
Williamsburg Charter School **(Attachment H)**	2	• No material findings.**	$72,497	$1,176	$0	$1,176	Y
The New Life Child Development Center **(Attachment I)**	3	• **Failure to Install a Technology Protection Measure (TPM)** The Beneficiary did not demonstrate a sufficient knowledge of the Rules governing the Children's Internet Protection Act (CIPA) requirements, including the	$0	$78,567	$0	$73,796	Y

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
		purchase and installation of a TPM. • **Lack of Documentation**. The Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records were properly retained to demonstrate that the costs of services requested for SLP support were properly allocated between eligible and ineligible students.					
All My Children Day Care School and Nursery **(Attachment J)**	3	• **Lack of Documentation - Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students.** The Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records were properly retained demonstrating that the costs of services requested for SLP support were properly allocated between eligible and ineligible students.	$18,927	$18,927	$18,927	$18,927	Y

Entity Name	**Number of Findings**	**Material Findings**	**Amount of Support**	**Monetary Effect***	**USAC Management Recovery Action***	**Commitment Adjustment***	**Entity Disagreement**
Rabbinical Yeshiva of Cincinnati	0	• No findings.	$260	$0	$0	$0	N/A
Total	**45**		**$628,241**	**$1,175,171**	**$492,236**	**$633,701**	

* The Monetary Effect amount may exceed the USAC Management Recovery Action and/or Commitment Adjustment as there may be findings that may not warrant a recommended recovery or commitment adjustment or had overlapping exceptions between findings.

** The audit findings are set forth in the Audit Report. Based on the dollar recovery amount, the findings are not material.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

HILLEL ACADEMY

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT NO. SL2017BE058

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HILLEL ACADEMY
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

August 6, 2018

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 Hillel Academy (Beneficiary), Billed Entity Number (BEN) 61271, 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 five 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 Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding #1: FCC Form 474 (SPI) User Guide-Service Provider Over Invoiced SLP for Services Not Provided. The Beneficiary's service providers invoiced the SLP for the full contract amount prior to rendering recurring services.	$56,936	$0	$56,936	$56,936
Finding #2: 47 C.F.R. § 54.503(a) (2015) – Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process. The Beneficiary did not conduct a fair and open competitive bidding process as it did not properly solicit bids when cardinal changes were made to its requirements.	$29,971	$25,080	$2,280	$4,891

[1] The monetary effect column represents the actual dollar effect of the finding without taking into account any recovery that overlaps between findings. The total in this column may therefore be more than the amount that was committed and disbursed to the Beneficiary.

[2] The overlapping recovery column represents disbursements that have already been recommended for recovery in a previous finding and therefore cannot be recovered as part of the current finding.

[3] Amounts in the recovery column may be less than the amounts reported for individual findings because we have eliminated overlapping recovery amounts to avoid duplicative recoveries.

[4] Amounts in the commitment adjustment column may be less than the amounts reported for individual findings because we have eliminated overlapping commitment adjustments to avoid duplicative recoveries.

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding #3: 47 C.F.R. § 54.516(a)(2) (2014) –Lack of Documentation-Service Provider Did Not Demonstrate Invoiced Services were Provided. The Beneficiary invoiced the SLP for services that it could not provide evidence that the services had been delivered to the Beneficiary as approved on its FCC Form 471.	$27,360	$27,360	$0	$0
Finding #4 - 47 C.F.R. § 54.516(a)(2) –Lack of Documentation-Beneficiary Did Not Demonstrate Invoiced Services were Provided. The Beneficiary invoiced the SLP for services that it could not provide evidence that the services had been delivered to the Beneficiary as approved on its FCC Form 471.	$2,611	$2,611	$0	$0
Finding #5: 47 C.F.R. § 54.505 (2016) – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471. The Beneficiary incorrectly estimated its student enrollment and eligibility on its FY 2016 FCC Form 471.	$0	$0	$0	$0
Total Net Monetary Effect	**$116,878**	**$55,051**	**$59,216**	**$61,827**

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amounts. With regard to the Service Provider response to Finding 1, neither the “Senior Manager USAC” nor “head of USAC’s invoicing department” recall providing any guidance referred to in the Service Provider’s response to this audit finding.

USAC will request that the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC directs the Beneficiary and Service Provider to USAC's website under "Reference Area" for guidance on Calculating Discounts available at (https://www.usac.org/sl/applicants/step03/discounts.aspx), Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/default.aspx), Invoicing – Service Providers available at (https://www.usac.org/sl/service-providers/step05/default.aspx), and Document Retention available at (https://www.usac.org/sl/tools/document-retention.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	Commitment Adjusted Amount
1699009808	$27,360	$0
1699009812	$31,856	$0
1699011402	$2,611	$0
Total	**$61,827**	**$0**

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2016. The Beneficiary is a private school located in Milwaukee, Wisconsin that serves more than 120 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of June 28, 2017, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	$64,723	$62,112
Voice	$6,414	$4,493
Total	**$71,137**	**$66,605**

The "amount committed" total represents three FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2016 that resulted in five Funding Request Numbers (FRNs). We tested all of the FRNs using 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 the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the 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 USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

We obtained and examined documentation to determine whether the Beneficiary complied with the requirements of the SLP Children's Internet Protection Act (CIPA). 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.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly selected a service provider that provided eligible services, 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 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. Beneficiary Location

We conducted inquiries to determine whether the services were located in eligible facilities and used in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the services for which it requested funding and evaluated the cost-effectiveness of the services purchased to determine whether the Beneficiary was using the funding in an effective manner.

E. Reimbursement Process

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

Detailed Audit Findings

<u>Finding No. 1, FCC Form 474 (SPI) User Guide-Service Provider Over-Invoiced SLP for Services Not Provided</u>

Condition

The Beneficiary's service providers invoiced the SLP for the full contract amount prior to rendering recurring services, as follows:

FRN 1699009808

The Beneficiary requested and received funding for recurring internet access support under FRN 1699009808. The approved Form 471 specified that the Beneficiary would obtain the services from VC Services LLC (Service Provider) at a monthly pre-discount cost of $2,850, for a total pre-discount cost of $34,200 ($27,360 when discounted at the Beneficiary's 80 percent discount rate). The Beneficiary entered into a contract with the Service Provider for "Distance Learning Circuit for 1 School, Single circuit with multi-channel sub-circuits" on February 18, 2016. The contract included a period of performance from July 1, 2016, through June 30, 2020, and stated that it was a "multi-year contract – not a monthly bill."

On July 1, 2016, the first day of the period of performance, the Service Provider billed the Beneficiary for its non-discounted share, or $6,840. On August 14, 2016, the Service Provider invoiced and was paid by the SLP for the full annual discounted total of $27,360. This invoice included a customer bill date of July 1, 2016, when services had not been delivered to the Beneficiary as required for invoicing SLP and as certified by the Service Provider on the Form 474. The invoice does not identify a period of performance or indicate that it relates to the Beneficiary's bill for the non-discounted portion of the services invoiced to the SLP. Therefore, the Service Provider invoiced SLP for 11 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement to which it certified on the Form 474. Therefore, $25,080 ($2,850 multiplied by 11 months, discounted at the Beneficiary's 80 percent discount rate) of the amount disbursed is considered not eligible for reimbursement under the SLP.

FRN 1699009812

The Beneficiary requested and received funding for recurring internet access support under FRN 1699009812. The approved Form 471 specified that the Beneficiary would obtain the services from GV Investments LLC (Service Provider) at a monthly pre-discount cost of $3,620, for a total pre-discount cost of $43,440 ($34,752 when discounted at the Beneficiary's 80 percent discount rate). The Service Provider's quote, dated January 7, 2016, included the following description of services: "High Speed Broadband – Annual Service – 100 mbp Up/Down; multi-channel service. Single circuit w/50 Sub-circuits." The Beneficiary entered into a contract with the Service Provider for the requested services on February 18, 2016. The contract indicated that it was a four-year contract with a period of performance of July 1, 2016, through June 30, 2020, and states that it was "billed annually – it is not a monthly contract."

On August 12, 2016, the Service Provider billed the Beneficiary for its non-discounted share, or $8,688. On August 15, 2016, the Service Provider invoiced and was paid by the SLP for the full annual discounted total of $34,752. This invoice included a customer bill date of July 1, 2016, the first day of the period of performance, when services had not been delivered to the Beneficiary as required for invoicing SLP and as certified by the Service Provider on the Form 474. In addition, we noted that the description of services included on the invoice to the Beneficiary does not match the description in the contract; instead, it states, "Broadband Fiber – Complete Annual Service, 100mb/s Up/Down, Dedicated Internet Access and MPLS." The invoice does not identify a period of performance, state the number of sub-circuits being invoiced, or indicate that it relates to the Beneficiary's non-discounted portion of the services invoiced to the SLP. Therefore, the Service Provider invoiced SLP for 11 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement to which it certified on the Form 474. Therefore, $31,856 ($3,620 multiplied by 11 months, discounted at the Beneficiary's 80 percent discount rate) of the amount disbursed is considered not eligible for reimbursement under the SLP.

Cause
The Service Providers did not have processes in place to ensure that they invoiced the SLP for services only after they had rendered, delivered, and properly billed the services.

Effect
The monetary effect, recommended recovery, and commitment adjustment for this finding is $56,936.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699009808 (Internet Access)	$25,080	$25,080	$25,080
1699009812 (Internet Access)	$31,856	$31,856	$31,856
Total	**$56,936**	**$56,936**	**$56,936**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Service Providers implement controls to ensure that they invoice the SLP only after they render and deliver the services.

Beneficiary Response

FRN 1699009808

The auditor's contention that services were not rendered when the school was invoiced is incorrect. On July 1, 2016 the circuit represented by the FRN cited above was turned on and fully functional. The school signed an ANNUAL contract which results in a less expensive product and complies with the e-rate "cost effectiveness" requirements. Other than alleged provider invoicing issues, the school complied with all other requirements and a recommendation for a commitment adjustment is unwarranted and duly harmful.

We contend that the issue is moot since at the time of the Audit, all services for program year 2016 were fully delivered certified and paid for.

FRN 1699009812

The auditor's contention that services were not rendered when the school was invoiced is incorrect. The school certified that on July 1, 2016 the circuit represented by the FRN cited above was turned on and fully functional. The school signed an ANNUAL contract which results in a less expensive product and complies with the e-rate "cost effectiveness" requirements. Other than alleged provider invoicing issues, the school complied with all other requirements and a recommendation for a commitment adjustment is unwarranted and duly harmful.

We contend that the issue is moot since at the time of the Audit, all services for program year 2016 were fully delivered certified and paid for. Any reduction of funding would be unjustly punitive.

Service Provider Response

FRN 1699009808

*As per Senior Manager USAC *, during numerous Vendor & Applicant Training sessions, applicants who pay their vendors on an annual basis receive a discount, as well as applicant engaged in a multiyear contract. Under this scenario Senior Manager USAC* indicated that Invoicing will consider a usual monthly reoccurring service as an annual service to be paid by the applicant and billed to USAC as a one-time fee. This was the most cost effective mode of receiving the service a USAC requirement.*

In fact, in this instance, USAC vetted the requested, requested supporting documentation and paid the invoice as per Senior Manager USAC instructions. This was also confirmed by head of USAC's invoicing department*.*

In addition we maintain that the issue is Moot, the service provider unequivocally delivered the service during FY 2016, the Beneficiary has validated that they received & paid for the service.

FRN 1699009812

During numerous USAC training sessions the issue of annual billing for monthly reoccurring services was addressed. Simply, multi-year contracts and annual one time *payments results in savings to Beneficiaries. According to USAC personnel USAC invoicing recognizes this and did infect review the request for funds congruent with USAC's policy.*

We also assert that the issue is moot since by June 30, 2017 the school received and paid their share of the contracted services.

We also assert that the invoice was very clear to the Beneficiary since it relates directly to the signed contract which clearly states the Beneficiaries financial responsibility, term of service etc. Furthermore, by definition a Dedicated Fiber and MPLS circuits have virtual channels called sub circuits.

***Response identified specific USAC personnel by name, however names have been removed for reporting purposes.**

Auditor Response

The Beneficiary and Service Provider's responses does not adequately address the issues identified during our testing of the referenced FRNs. As part of our testing, we determined that the services contracted under these FRNs constitute transmission services provided on a recurring basis throughout the period, rather than at a single point in time. Beneficiaries may enter into an annual contract if the service provider does not bill until the end of the service period; however, the service provider may not bill at the beginning of the contract year, prior to delivering the services for the period. The FCC Form 474 (SPI) User Guide indicates "[t]he service provider must provide the service and give a discounted bill to the applicant prior to submitting the FCC Form 474." Whether the advance payments were cost effective or not is irrelevant because the SLP can only be invoiced after the services are performed and billed to the applicants. As a result, our position regarding the finding does not change.

<u>Finding No. 2, 47 C.F.R. § 54.503(a) – Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process</u>

Condition

The Beneficiary did not conduct a fair and open competitive bidding process as it did not properly solicit bids when cardinal changes were made to its requirements for the following FRNs:

FRN 1699011402

The Beneficiary did not post a new FCC Form 470 Application No. 160015999 when it reduced its requirements for fiber capacity under FRN 1699011402. The original Form 470 stated, "Quantities are minimums will consider greater quantities and capacities." Based on this statement, the Beneficiary would have been allowed to increase its capacity requirements without revising the Form 470; however, the statement did not allow for a reduction in capacity. USAC views an unauthorized change in capacity as a cardinal change; as such, the Beneficiary should have notified SLP and potential bidders by posting a new FCC Form 470 to solicit new bids for its newly revised requirements upon determining that it did not require the full capacity specified in the original Form 470 submission. Revising the Form 470 was particularly important because the Beneficiary's primary mechanism for competition was the Form 470 posting as no separate request for proposal was posted. By not posting a revised Form 470 detailing the lowered fiber capacity thresholds, the Beneficiary may have prevented eligible service providers from bidding for its E-Rate services.

Specifically, the Beneficiary completed a Form 470 for Category 1 services that outlined its requirements for Internet Access and Transport Bundled, 100-200 Mbps under FRN 1699011402. The Form 470 stated, "Quantities are minimums will consider greater quantities and capacities." The SLP approved the Beneficiary's related Form 471 for Broadband Cable, Internet access service that included a connection from any applicant site directly to the Internet Service Provider, Fiber OC-1 51.480 Mbps Upload/Download Speed at a monthly pre-discount cost of $272, for a total annual pre-discount cost of $3,264 ($2,611 when discounted at the Beneficiary's 80 percent discount rate). The Beneficiary entered into a month-to-month agreement with Time Warner Cable Information Services (Wisconsin), LLC to obtain the required services. The Beneficiary was unable to provide a copy of the original contract; however, we reviewed the invoices and noted that the description of services stated, "Wideband Internet – 35Mx5M," which correlates to a 35 Mb/s upload speed and a 5 Mb/s download speed. The upload/download speed on the invoices was therefore less than was the speed requested on either the posted Form 470 or the approved Form 471, indicating that the Beneficiary did not accept bids in accordance with the requested services.

FRN 1699009808

The Beneficiary also did not submit a new FCC Form 470 Application No. 160015999 when it increased its requirements for sub-circuits under FRN 1699009808. The original Form 470 stated that the Beneficiary required "at least 30 sub circuits"; however, the Form 471 stated that the Beneficiary required "at least 75 sub circuits." Based on the original Form 470, the Beneficiary would have been allowed to increase its capacity requirements without posting a new Form 470; however, the significant difference between the minimum capacity per the Form 470 and the minimum capacity per the Form 471 represents a cardinal change in capacity. As such, the Beneficiary should have notified the SLP and potential bidders by posting a new FCC Form 470 immediately upon determining that it required a significantly higher capacity than was specified in the original Form 470 submission. In addition, the Beneficiary's contract did not specify the capacity provided; as such, the Beneficiary and the service provider were unable to demonstrate that the capacity requested or approved was the capacity actually billed.

Specifically, the Beneficiary completed a Form 470 outlining its requirements for Transport Only – No ISP Service Included, Distance Learning, at least 30 sub circuits, 100-200 Mbps under FRN 1699009808. The SLP approved the Beneficiary's related Form 471 for Distance Learning Video Conferencing Circuitry, at least 75 sub circuits, Fiber OC-3, 155.520 Mbps Upload/Download Speed at a monthly pre-discount cost of $2,850, for a total annual pre-discount cost of $34,200 ($27,360 when discounted at the Beneficiary's 80 percent discount rate). The Beneficiary contracted with VC Services LLC to obtain the required services; however, we reviewed the contract and noted that the description of services stated, "Distance Learning Circuit for 1 school, Single circuit with multi-channel sub-circuits," which does not align with the description of services included on the Form 470 or the Form 471, indicating that the Beneficiary did not accept bids in accordance with the requested services.

We have summarized the differences observed between the documents as follows:

FRN	Product as Described on FCC Form 470	Product as Described on FCC Form 471	Description per Contract
1699011402	Internet Access and Transport Bundled, 100 Mbps Min, 200 Mbps Max; Narrative: “Quantities are minimums will consider greater quantities and capacities.”	Broadband Cable; Internet access service that includes a connection from any applicant site directly to the Internet Service Provider; Fiber OC-1 51.480 Mbps Up/Down	Month-to-Month; Original contract could not be located to be provided; Invoice description indicates: Wideband Internet – 35Mx5M
1699009808	Transport Only - No ISP Service Included. Narrative: Distance Learning at least 30 sub circuits, 100 Mbps Min, 200 Mbps Max	Distance Learning Video Conferencing Circuitry at least 75 sub circuits; Fiber OC-3 155.520 Mbps Up/Down	Distance Learning Circuit for 1 school Single circuit with multi channel sub-circuits

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the competitive bidding process and the circumstances under which beneficiaries must submit revised FCC Form 470s. The Beneficiary also did not have sufficient processes in place to ensure that it posted a new FCC Form 470 after making cardinal changes to its requirements, thereby enabling service providers to accurately bid on services.

Effect

The monetary effect and recommended commitment adjustment for this finding is $29,971, or the full post-discount amount for each FRN. The Beneficiary had not invoiced SLP for FRN 1699011402 until after the announcement date, and therefore, there were no disbursement within the audit period. However, the full amount was disbursed during the funding year.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699011402 (Internet Access)	$2,611	$0	$2,611
1699009808 (Internet Access)	$27,360	$27,360	$27,360
Total	**$29,971**	**$27,360**	**$29,971**

Recommendation

We recommend that:

1. USAC seek recovery of the amounts identified above for FRN 1699009808 and reduce the commitment accordingly.

2. USAC seek recovery of the amounts paid after June 28, 2017 for FRN 1699011402, as identified above in the commitment adjustment.

3. The Beneficiary implement stronger controls to ensure that it uses a competitive bidding process in accordance with the Rules.

Beneficiary Response

FRN 1699011402
We contend that throughout USAC training sessions an applicant cannot accept services that were beyond the maximums stated in the Form 470. Accepting quantities less than the minimums were never an issue.

In addition of USAC statutory section listed at the end of this report concerning Cardinal Changes states, "USAC Schools and Libraries News Brief, July 17, 2015 - if you are making a cardinal change to what you have already posted – such as <u>adding additional speeds</u>, products or services, or locations or entities – you must post a new FCC Form 470."

In addition we submit that the difference between 50 & 100 Mbps cable circuit is not a cardinal change since the cost differential from a wide range of experience for this type of service is marginal.

The auditors contend that the applicant's form 471 does not include a lower bandwidth. The Form 471 drop down speed selections DO NOT indicate the Mbps in a numeric form (i.e. – 50 Mbps, 100 Mbps etc.) instead it uses Telecommunications Jargon such a OC-1, OC-3 etc. OC-1 of 51 Mbps is the lowest speed in this category of service.

FRN 1699009808
The auditor's assertion that there was a change in capacity by comparing the form 470 to the form 471 is fundamentally unfounded. The form 470 describes what the school is seeking and the form 471 describes the actual services acquired -the issue of Cardinal change is out of place since the form 470 allowed latitude to contract for services at a higher capacity. The vendor indicated that given the Broadband circuit and the number of students there would be 75 virtual circuits which is a section of the narrative on the form 471 which could have been eliminated. In addition, the comparison between physical circuits and virtual circuits (sub-channels) is erroneous. In fact, this is the SAME service provided in FY 2015 so the need to delineate to the school capacity verbiage on the contract was considered superfluous.

Auditor Response

As indicated in the condition of the finding, the Beneficiary had added specific language to its FCC Form 470 posting to state "quantities are minimums." Therefore, the Beneficiary violated competitive bidding requirements by not posting a new Form 470 after making cardinal changes. If potential bidders had been aware that the Beneficiary would accept bids for speeds below 100 Mbps, it is possible that the Beneficiary would have received additional proposals from bidders that were not able to provide the capacity specified in the original Form 470 submission but that were able to provide the revised capacity. As a result, our position regarding the finding does not change.

<u>Finding No. 3, 47 C.F.R. § 54.516(a)(2) –Lack of Documentation-Service Provider Did Not Demonstrate Invoiced Services were Provided</u>

Condition

The Service Provider invoiced the SLP for services that it could not provide evidence that the services had been delivered to the Beneficiary as approved on its FCC Form 471, for the following FRN:

FRN 1699009808

The Beneficiary received funding of $27,360 for recurring telecommunications services under FRN 1699009808. The approved FCC Form 471 specified that monthly eligible pre-discount costs for this service were $2,850, with an annual approved cost of $34,200. On February 18, 2016, the Beneficiary entered into a telecommunications services contract with VC Services, LLC (Service Provider) for "Distance Learning Circuit for 1 School, Single circuit with multi-channel sub-circuits." According to the contract, this was "not a monthly bill."

The Service Provider submitted one SPI to the SLP on August 14, 2016, for $27,360 ($34,200 discounted at 80 percent). This SPI indicated that the customer bill date was July 1, 2016. We noted that the Service Provider bill did not contain sufficient detail to verify that the services actually received by the Beneficiary corresponded to the services approved on the FCC Form 471. The quote, contract, and invoice did not include technical descriptions of the services that agreed and would enable us to validate the documents against the information contained in the Beneficiary's approved FCC Form 471. The Service Provider was unable to provide any additional evidence during our audit that would enable us to conclude that the Service Provider provided the Distance Learning Video Conferencing Circuitry at least 75 sub circuits; Fiber OC-3 155.520 Mbps Up/Down telecommunications services that had been approved by the SLP.

Specifically, we compared the services listed on the approved FCC Form 471 to the services listed on the contracts and invoices for this FRN:

FRN	Service Provider	Product as Described on FCC Form 471	Description per Contract	Description per Service Provider Bill
1699009808	VC Services LLC	Distance Learning Video Conferencing Circuitry at least 75 sub circuits; Fiber OC-3 155.520 Mbps Up/Down	Distance Learning Circuit for 1 school Single circuit with multi channel sub-circuits	Distance Learning Circuit for 1 school 25 Simultaneous connections Complete HD Service

Additionally, the network diagrams/floor plans requested were not provided. Therefore, without this documentation and the lack of other support there was no evidence that this one independent school had a need for 75 sub-circuit Fiber connections, 25 simultaneous connections, for approved eligible purposes during the period. Based on the lack of consistent proper documentation to support its rendering of approved services for both FRNs, the Service Provider did not adequately support disbursements requested.

Cause
The Beneficiary did not have processes in place to contact SLP for assistance during the application process to ensure accurate FCC Form 471 requests. The consultant also stated that the service providers' invoices do not agree with the contracts; however, the Beneficiary will require them to do so in the future.

Effect
The monetary effect and recommended commitment adjustment for this finding is $27,360, or the full discounted amount for each FRN.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699009808 (Internet Access)	$27,360	$27,360	$27,360

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above for FRN 1699009808 and reduce the commitment accordingly.

2. The Beneficiary implement controls to ensure that it maintains documentation to support its network infrastructure when contract and invoice descriptions change from those on the approved Form 471.

3. The service providers implement controls to ensure that they only enter into accurate contracts with beneficiaries and that they only submit invoices to the SLP that align with the approved internet access services.

Beneficiary Response

The school certified that it received the contracted services. The auditors had sufficient opportunities to ask the vendor the details of the service (e.g. Mbps & virtual sub-circuits[channels]. The request for network diagrams and the school's lack of providing the same reflects the auditors lack of technical understating of what this means. Seeking a floor plan of where the 75 sub-circuits are located is similar to asking to see the two wires- one which provides local telephone service and one which provides long distance service. This erroneous assertion has caused the auditors to question the need for SO MANY Circuits. Recovery or reductions of Funding commitments over variations in technical tautology is unwarranted and unreasonably injurious to the school.

Note that USAC's Program Integrity Assurance department carefully vetted this request and did not come to the same conclusions at the auditors. Similarly, USAC's Invoicing department did not agree with the auditors and approved the disbursements.

Service Provider Response

The company provides Distance Learning Circuitry based on a Tier system that includes but is not limited to the potential number of individual users and the number of simultaneous sessions (e.g. rooms). 25 rooms for a school with that student population requires a 100 mb circuit with 75 channels or sub circuits. In addition, the notion that there was no network diagram for the 75 sub circuits reflects the lack of technical knowledge of the auditors. 75 sub circuits does not represent 75 physical wires placed around the building. Sub-circuits or channels are virtual and are contained in each and every node.

Auditor Response

The Beneficiary and Service Provider's responses do not accurately addressed the finding. The Beneficiary claimed that it was using the 75 sub-circuits to conduct simultaneous sessions in 25 eligible classrooms within a single school building; however, the Beneficiary only reported 130 students on its FCC Form 471. We therefore requested evidence to support the existence of the 25 eligible classrooms using the 75 sub-circuits. In addition, the Beneficiary shares the building with a Milwaukee Jewish day school; it was therefore necessary for our team to review evidence such as a floor plan/map/network diagram to determine whether the Beneficiary had 25 eligible distance learning classrooms to justify the request for the circuits. However, the Beneficiary did not provide this or other information to support its request. As a result, our position regarding the finding does not change.

Finding No. 4 - 47 C.F.R. § 54.516(a)(2) –Lack of Documentation-Beneficiary Did Not Demonstrate Invoiced Services were Provided

The Beneficiary invoiced the SLP for services that it could not provide evidence that the services had been delivered to the Beneficiary as approved on its FCC Form 471, for the following FRN:

FRN 1699011402
The Beneficiary received funding of $2,611 for recurring telecommunications services under FRN 1699011402. The approved FCC Form 471 specified that monthly eligible pre-discount costs for this service were $272, with an annual approved cost of $3,264. The Beneficiary did not provide a contract with Time Warner Cable Information Services (Wisconsin), LLC (Service Provider) because the services were on a month-to-month basis. The Beneficiary submitted one BEAR to the SLP on July 17, 2017. The BEAR was for the full committed amount of $2,611.

We noted that the Service Provider bill did not contain sufficient detail to verify that the services actually received by the Beneficiary corresponded to the services approved on the FCC Form 471. The description on the bill did not agree to the technical description of the services requested and approved on the Beneficiary's approved FCC Form 471. The Beneficiary was unable to provide any additional evidence during our audit that would enable us to conclude that the Service Provider provided the Broadband Cable; Internet access service that includes a connection from any applicant site directly to the Internet Service Provider; Fiber OC-1 51.480 Mbps Up/Down telecommunications services that had been approved by the SLP. Therefore, the Beneficiary invoiced SLP for services that it could not support had been delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 472. Therefore, the $2,611 disbursed, after the announcement date but within the funding year, is considered not eligible for reimbursement under the SLP.

Specifically, we compared the services listed on the approved FCC Form 471 to the services listed on the contracts and invoices for this FRN:

FRN	Service Provider	Product as Described on FCC Form 471	Description per Contract	Description per Service Provider Bill
1699011402	Time Warner Cable Information Services (Wisconsin), LLC	Broadband Cable; Internet access service that includes a connection from any applicant site directly to the Internet Service Provider; Fiber OC-1 51.480 Mbps Up/Down	Not provided	Wideband Internet - 35Mx5M

Additionally, the network diagrams requested were not provided. Therefore, there was no evidence that the Fiber connection was in use for the approved eligible purposes during the period. Based on the lack of consistent proper documentation to support its rendering of approved services for the FRN, the Service Provider did not adequately support the disbursement requested.

The Beneficiary's consultant stated that the Form 471s did not agree to the contracts and invoices because there are only limited dropdown selections available for the Beneficiary to choose from when submitting the FCC Form 471, so there were not always selections to match the information included in the contracts and invoices. However, per our additional research and discussion with the SLP there are more accurate selections. The consultant also stated that the service providers' invoices do not agree contracts; however, the Beneficiary will require them to do so in the future.

Cause
The Beneficiary did not have processes in place to contact SLP for assistance during the application process to ensure accurate FCC Form 471 requests.

Effect
The Beneficiary had not invoiced SLP for FRN 1699011402 until after the announcement date, and therefore, there were no disbursement within the audit period. However, the full amount was disbursed during the funding year.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699011402 (Internet Access)	$2,611	$0	$2,611

Recommendation
We recommend that:

1. USAC seek recovery of the amounts paid after June 28, 2017 for FRN 1699011402 as identified in the monetary effect and reduce the commitment accordingly.

2. The Beneficiary implement controls to ensure that it maintains documentation to support its network infrastructure when contract and invoice descriptions change from those on the approved Form 471.

3. The Beneficiary implement controls to ensure that they only enter into accurate contracts with Service Providers and that they only submit invoices to the SLP that align with the approved internet access services.

Beneficiary Response

We submit that the form 471 drop down menu does not provide an opportunity to designate Broadband services less than 51Mbps OC-1. There are no Mbps numeric representations in the drop-down menu. Reduction or withdrawal of funding based upon tautology is unjust and injurious to the school.

Auditor Response

Based on our review of the invoices, the Beneficiary received wideband internet, which is a type of Ethernet. We reviewed the available drop-down options in the EPC system and determined that the Beneficiary should have requested Ethernet services; selecting this option then allows the user to enter any internet capacity. We therefore determined that the EPC system does provide the option to select the Broadband services that the Beneficiary ultimately ordered. We further noted that the SLP offers support to assist beneficiaries in submitting accurate requests. The objective of our audit is to evaluate whether the Beneficiary received the services for which it obtained approval; in this case, the description on the invoice did not agree to the services that the Beneficiary requested on the approved FCC Form 471. As a result, our position regarding the finding does not change.

Finding No. 5, 47 C.F.R. §54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471

Condition

The Beneficiary incorrectly estimated its student enrollment and eligibility on its FY 2016 FCC Form 471. Specifically, when completing its Form 471, the Beneficiary estimated its student enrollment at 130 students, 65 of whom would be eligible for free or reduced-price lunches. Based on this estimate, the Beneficiary calculated an eligibility percentage of 50 percent. When we requested support for this total, the Beneficiary initially provided an Alternative Discount Certification Letter dated August 16, 2016, that indicated an enrollment of 121 students, 70 of whom would be eligible for free or reduced-price lunches. We recalculated the percentage based on this lunch statement and arrived at a 58 percent eligibility rate. The Beneficiary subsequently provided income surveys that supported enrollment of 123 students, 71 of whom would be eligible for free or reduced-price lunches. We recalculated the percentage based on this additional support and determined that the appropriate eligibility percentage was 58 percent. We provide a comparison of the recalculations in the following table:

Discount Recalculation	Included on FCC Form 471	Recalculated Based on Alternative Discount Certification Letter	Recalculated Based on Income Surveys
Enrolled	130	121	123
Eligible	65	70	71
Eligibility Rate	50%	58%	58%

Based on our recalculation, the discount percentage remained unchanged for its Category 1 services at 80% for Internet Access and 40% for Voice Services. While the erroneous student enrollment and eligibility estimate did not impact the Beneficiary's overall discount rates in FY 2016, they had potential to do so. The Beneficiary's inability to accurately support the eligible student counts reported in its FCC Form 471 and its lunch statement represents a noncompliance with the Rules.

Cause
Beneficiary had insufficient internal processes and procedures to demonstrate where it had derived the data submitted to USAC and therefore did not have adequate processes in place to ensure the accuracy of its FCC Form 471 submission. The Beneficiary did not have sufficient controls in place to ensure that it retained documentation to support its compliance with the Rules.

Effect
Because the erroneous student enrollment and eligibility estimate did not significantly impact the Beneficiary's discount and eligibility percentage, there is no monetary effect, recommended recovery, or commitment adjustment for this finding. However, by not retaining documentation to verify that it used accurate enrollment and eligibility estimates when completing its Form 471 submission, the Beneficiary is at an increased risk of future exceptions, including exceeding its budget.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
All Sampled FRNs/All Services	$0	$0	$0

Recommendation
We recommend that the Beneficiary implement stronger document retention controls to ensure that it maintains adequate information to support both its calculations and the documentation that it submits to the SLP.

Beneficiary Response

> *Private schools have fluid populations and the citing of student populations will be different when looking at a snap shot at different points in time.*

Auditor Response
We understand that student populations change over the funding period; however, the Beneficiary was responsible for maintaining documentation to support the numbers reported on its FCC Form 471 application. According to USAC's documentation retention requirements and 47 C.F.R. § 54.516(a)(2), "All applicants and service providers are required to retain receipt and delivery records relating to pre-bidding, bidding, contracts, application process, invoices, provision of services, and other matters relating to the administration of universal service for a period of at least ten years after the latter of the last day of the applicable funding year or the

service delivery deadline for the funding request." The Beneficiary did not respond to the retention issue detailed in this finding. As a result, our position regarding the finding does not change.

Criteria

Finding	Criteria	Description
1	Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide, at 3	*Service providers use the FCC Form 474, Service Provider Invoice (SPI) Form, to request reimbursements from the Universal Service Administrative Company (USAC) for eligible services provided at discounted prices. The service provider must provide the service and give a discounted bill to the applicant prior to submitting the FCC Form 474.* *ALL of the following conditions must occur before a service provider prepares and submits the FCC Form 474 to USAC:* *1. The service provider receives a Funding Commitment Decision Letter (FCDL) from USAC which approves eligible discounts for services; AND* *2. The eligible applicant is already receiving or has received these services; AND* *3. The service provider has billed the applicant for its non discount share of the services; AND* *4. The service provider has received its FCC Form 486 Notification Letter; AND* *5. The service provider has filed an FCC Form 473, Service Provider Annual Certification Form, for the corresponding funding year.*
1, 2, 3, 4	47 C.F.R. § 54.516(a)(2), 2015	***Recordkeeping requirements*** *(1) 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 two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.* ***(2)Service providers.*** *Service providers shall retain documents related to the delivery of supported services for at least 10 years after the latter of the last day of the*

Finding	Criteria	Description
		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.
2	47 C.F.R. § 54.503(a), 2015	***§ 54.503 Competitive bidding requirements.*** ***(a)*** *All entities participating in the schools and libraries universal service support program must conduct a fair and open competitive bidding process, consistent with all requirements set forth in this subpart.* ***Note to paragraph (A):*** *The following is an illustrative list of activities or behaviors that would not result in a fair and open competitive bidding process: the applicant for supported services has a relationship with a service provider that would unfairly influence the outcome of a competition or would furnish the service provider with inside information; someone other than the applicant or an authorized representative of the applicant prepares, signs, and submits the FCC Form 470 and certification; a service provider representative is listed as the FCC Form 470 contact person and allows that service provider to participate in the competitive bidding process; the service provider prepares the applicant's FCC Form 470 or participates in the bid evaluation or vendor selection process in any way; the applicant turns over to a service provider the responsibility for ensuring a fair and open competitive bidding process; an applicant employee with a role in the service provider selection process also has an ownership interest in the service provider seeking to participate in the competitive bidding process; and the applicant's FCC Form 470 does not describe the supported services with sufficient specificity to enable interested service providers to submit responsive bids.* ***(b)Competitive bid requirements.*** *Except as provided in § 54.511(c), an eligible school, library, or consortium that includes an eligible school or library shall seek competitive bids, pursuant to the requirements established in this subpart, for all services eligible for support under § 54.502. These competitive bid requirements apply in addition to state and local competitive bid requirements and are not intended to preempt such state or local requirements.* ***(c)Posting of FCC Form 470.*** ***(1)*** *An eligible school, library, or consortium that includes an eligible school or library seeking bids for eligible*

Finding	Criteria	Description
		services under this subpart shall submit a completed FCC Form 470 to the Administrator to initiate the competitive bidding process. The FCC Form 470 and any request for proposal cited in the FCC Form 470 shall include, at a minimum, the following information: ***(i)*** *A list of specified services for which the school, library, or consortium requests bids;* ***(ii)*** *Sufficient information to enable bidders to reasonably determine the needs of the applicant;*
2	USAC Schools and Libraries News Brief, July 17, 2015	*After you have certified an FCC Form 470 on the USAC website, you can add more RFP documents but you cannot remove any that were already attached. Note, however, that if you are making a cardinal change to what you have already posted – such as adding additional speeds, products or services, or locations or entities – you must post a new FCC Form 470.*
4	Schools and Libraries (E-rate) Program, FCC Form 472 (BEAR) User Guide, at 18	*The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by USAC pursuant to a Funding Commitment Decision Letter (FCDL).*
5	47 C.F.R. §54.505, 2016	*Discounts: Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.*

COTTON & COMPANY LLP

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Alexandria, VA

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

CHABAD HEBREW ACADEMY

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT NO. SL2016BE039

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SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

August 6, 2018

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 Chabad Hebrew Academy (Beneficiary), Billed Entity Number (BEN) 197225, 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 eight 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 Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	USAC Recovery Action[3]	Recommended Commitment Adjustment[4]
Finding No. 1, FCC Form 474 Instructions, at 3 – Service Provider Over-Invoiced for Ineligible Services and Equipment. All Days Techs, Inc. (Service Provider) invoiced for services that were not supported as eligible BMIC services for FRN 2859748.	$26,132	$0	$26,132	$26,132
Finding No. 2, FCC Form 474 Instructions – Service Provider Over-Invoiced SLP for Services Not Provided. The Service Provider invoiced the SLP for services that had not been provided to the Beneficiary as of the time of invoicing under FRNs 2859748, 2859694, and 2859606.	$124,088	$26,132	$97,956	$97,956

[1] The monetary effect column represents the actual dollar effect of the finding without taking into account any recovery that overlaps between findings. The total in this column may therefore be more than the amount that was committed and disbursed to the Beneficiary.

[2] The overlapping recovery column represents disbursements that have already been recommended for recovery in a previous finding and therefore cannot be recovered as part of the current finding.

[3]Amounts in the recovery column may be less than the amounts reported for individual findings because we have eliminated overlapping recovery amounts to avoid duplicative recoveries.

[4] Amounts in the commitment adjustment column may be less than the amounts reported for individual findings because we have eliminated overlapping commitment adjustments to avoid duplicative recoveries.

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	USAC Recovery Action[3]	Recommended Commitment Adjustment[4]
Finding No. 3, 47 C.F.R. § 54.502(a) – Beneficiary Over-Invoiced SLP for Ineligible Services. The Beneficiary over-invoiced the SLP and included ineligible services in its reimbursement requests for FRNs 2799208, 2799218 and 2799151.	$21,854	$0	$11,621	$21,852
Finding No. 4, Form 472 Instructions, at 4– Beneficiary Did Not Pay Service Provider Bills Before Invoicing SLP. The Beneficiary did not pay the Service Provider before invoicing the SLP for cellular voice services requested under FRN 2799218.	$10,728	$10,728	$0	$0
Finding No. 5, 47 CFR § 54.501 – Beneficiary Over-Invoiced SLP for Services Delivered to Ineligible Locations and for Ineligible Students. The Beneficiary invoiced the SLP for ineligible locations and additional lines, and it did not allocate costs for ineligible students.	$15,569	$0	$2,699	$15,569
Finding No. 6, FCC Form 474 Instructions at 3 – Service Provider Over-Invoiced SLP for Services Not Requested by the Beneficiary. The Beneficiary and the Service Provider performed an unauthorized service substitution under FRN 27999140.	$8,999	$0	$0	$0
Finding No. 7, Second Report & Order, FCC 03-101, 18 FCC Rcd 9202, 9209-10, paras 22, 24- Beneficiary Over-Invoiced SLP for Duplicate Services. The Beneficiary requested duplicative funding for both internet and digital transmission services.	$99,900	$97,956	$0	$0

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	USAC Recovery Action[3]	Recommended Commitment Adjustment[4]
Finding No. 8, 47 C.F.R. § 54.505 – Improperly Calculated Discount. The Beneficiary over-invoiced and over-requested funding from the SLP due to its use of unsupported student counts and an improper methodology in determining its discount percentage.	$21,396	$16,953	$0	$1,200[5]
Total Net Monetary Effect	**$328,666**	**$151,769**	**$138,408**	**$161,509**

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. With regard to the Service Provider response to Finding 2, neither the USAC SLP Senior Manager or head of the Invoicing department recall providing any guidance that the Service Provider refers to in its response to this audit finding.

USAC will request that the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC directs the Beneficiary and Service Provider to USAC's website under "Reference Area" for guidance on Calculating Discounts available at (https://www.usac.org/sl/applicants/step03/discounts.aspx), Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/default.aspx), Invoicing – Service Providers available at (https://www.usac.org/sl/service-providers/step05/default.aspx), and Document Retention available at (https://www.usac.org/sl/tools/document-retention.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).

[5] The $1,200 commitment adjustment relates to Funding Request Number (FRN) 2799140.

FRN	Commitment Adjustment Amount	Recovery Amount
2799132	$5,415	$1,725
2799140	$10,199	$0
2799151	$8,287	$893
2799164	$869	$0
2799174	$3,043	$737
2799178	$1,530	$150
2799183	$2,013	$87
2799208	$1,944	$0
2799218	$0	$10,728
2859606	$0	$43,740
2859694	$0	$54,216
2859748	$0	$26,132
Total	**$33,300**	**$138,408**

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 located in San Diego, California that serves more than 180 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of May 10, 2016, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Basic Maintenance of Internal Connections	$26,132	$26,132
Internet Access	$65,663	$44,633
Telecommunications	$54,216	$54,216
Voice	$28,169	$13,427
Total	**$174,180**	**$138,408**

The "amount committed" total represents 6 FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2015 that resulted in 16 Funding Request Numbers (FRNs). We tested all FRNs using 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 the funding in accordance with the

Rules, we examined documentation to verify whether the Beneficiary used the 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 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.

We obtained and examined documentation to determine whether the Beneficiary complied with the requirements of the Children's Internet Protection Act (CIPA). 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.

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 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 services requested and purchased.

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the services identified on FCC Form 472, *Billed Entity Applicant Reimbursement* (BEAR); 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. Beneficiary Location

We conducted inquiries to determine whether the services were located in eligible facilities and used in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the services for which it requested funding and evaluated the cost-effectiveness of the services purchased to determine whether the Beneficiary was using the funding in an effective manner.

E. Reimbursement Process

We obtained and examined service invoices that the Beneficiary submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed invoices associated with the BEAR and SPI forms for services provided to the Beneficiary. We verified that the 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 for Ineligible Services and Equipment

Condition

All Day Techs, Inc. (Service Provider) invoiced for services that were not supported as eligible basic maintenance of internal connections (BMIC) services for FRN 2859748. The approved FCC Form 471 specified that the Beneficiary would obtain BMIC services from the Service Provider at a monthly pre-discount cost of $2,562, for a total pre-discount cost of $30,744. We examined the Service Provider contract, price quote, Service Provider bills, and maintenance logs to determine whether the BMIC services provided under FRN 2859748 were eligible for SLP support. We noted that:

- The contract between the Beneficiary and the Service Provider, titled *24/7 I.T. Support and Maintenance*, describes its purpose to "provide IT/DLS services, infrastructure and support to Chabad Education Center." It states another purpose as to "provide managed services for IT infrastructure and support to" the Beneficiary. The Service provider "will provide technical and consulting services necessary to fulfill the required technical issues. The objective stated above, as well as any other services mutually agreed upon, on a time and materials basis." Parties agree to pay the Service provider for "all software, hardware, equipment, and other items purchase for, or on behalf of" the Beneficiary.
- The Service Provider's quote appears to predominately consist of equipment costs. For example, the quote includes 2 rack cabinets, 20 wireless access points, 1 wireless controller, 2 caching servers, and 108 caching devices, as well as a firewall system. The only items referred to as "services" are cabling maintenance service for 300 CATS cabling, eight "Switches Services-NetGear ProSafe FS7200 Series," and "UPS Service-APC SmartUPS 1440V." The total quoted price is $30,740; the portion related to service items totals $12,200. The quote does not refer to the contract or that it is for basic maintenance services.
- We requested evidence to support the equipment purchase, to ensure the equipment was not purchased with this contract, however, no documentation was provided.
- The Beneficiary provided an approximate location map for the equipment that received maintenance services. This included at least two access points that were located in positions to serve ineligible classrooms for infants and toddlers.

Based on the issues noted above, we were unable to determine whether the BMIC services requested in the FCC Form 471 were eligible as the Beneficiary was unable to provide any evidence to support the eligibility of these services.

Cause
The Beneficiary did not have adequate processes in place to maintain the required documentation and did not have sufficient knowledge of the requirements for requesting BMIC services under the FCC Form 471 approval process.

Effect
The monetary effect of this finding is $26,132 ($30,744 discounted at 85 percent), or the total amount funded and disbursed for FRN 2859748.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2859748 (BMIC)	$26,132	$26,132	$26,132

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary only request BMIC support for eligible services and maintain supporting documentation for these services, as required by the Rules.

3. The Service Provider ensure requests are made for reimbursement from SLP for services that can be supported as eligible under the Rules.

Beneficiary Response

Please see the attached quote and contract. As clearly indicated on the contract the Maintenance is for all items listed on the quote. I have attached a clear list of the cost of each item being maintained and the cost to maintain it. It clearly shows that the prices are not for equipment costs! I have re-attached a sitemap that indicates location of all equipment's.

Service Provider Response
The Service Provider did not provide a response for this finding.

Auditor Response
As stated in the condition of the finding, the contract provided by the Beneficiary states that its purpose was to "provide… infrastructure" and that the parties agreed to pay the Service Provider for "hardware, equipment, and other items purchase for, or on behalf of" the Beneficiary. The quote from the Service Provider states, "Payment will be due prior to delivery of service and goods." Based on our evaluation of like items provided to other beneficiaries, the prices included in the contract are similar to equipment costs. In addition, as indicated in the finding, the Beneficiary's site map shows that the access points are providing services to ineligible locations. As a result, our position regarding the finding does not change.

Finding No. 2, 47 C.F.R. § 54.516(a)(2) – Lack of Documentation – Service Provider Did Not Demonstrate Billed Services were Provided

Condition

The Service Provider invoiced the SLP for services that it could not provide evidence that the services had been delivered to the Beneficiary at the time of invoicing SLP as required by the Rules, for the following FRNs:

FRN 2859748

The Beneficiary received funding of $26,132 for BMIC support under FRN 2859748. The approved FCC Form 471 specified that the Beneficiary would obtain the services from All Day Techs, Inc. (Service Provider) at a monthly pre-discount cost of $2,562, for a total pre-discount cost of $30,744. The Service Provider's quote for the services, dated January 21, 2015, stated that payment would be due prior to the delivery of goods and services. On August 21, 2015, the Service Provider invoiced the SLP for the annual amount, $30,744 for these services for which the discounted amount of $26,132 was disbursed; although the recurring services had only been provided for only two of the twelve month period. Additionally the quote and the invoice did not support consistent billing terms for recurring BMIC services. The Contract entered into on March 7, 2015 stated that the Service Provider "provides a monthly support service plans which is a fixed fee based on hours for our service." However, the invoice provided to support the invoicing to SLP specified a customer delivery date of July 1, 2015, and a billing frequency of "annual." FCC Order DA 10-2355 (2010) states that organizations providing BMIC services will be paid only for actual work performed or for hours of labor actually used, and that organizations may not bill BMIC services in advance.

On September 21, 2015, the Service Provider invoiced the Beneficiary $4,612. The Beneficiary paid this invoice and indicated it was the bill for its non-discounted share of the BMIC services. The description of services included on this invoice does not match the description included in the previous invoice to the SLP; it merely states "IT Services." The invoice does not identify a period of performance, the eligible BMIC services provided or indicate that it relates to the Beneficiary's non-discounted portion of the services invoiced to the SLP. Therefore, the Service Provider invoiced SLP for services that it could not support had been delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. The $26,132 disbursed is considered not eligible for reimbursement under the SLP.

FRN 2859694

The Beneficiary received funding of $54,216 for recurring telecommunications services under FRN 2859694. The approved FCC Form 471 specified that monthly eligible pre-discount costs for this service were $5,020, with an annual approved cost of $60,240. On March 6, 2015, the Beneficiary entered into a telecommunications services contract with VC Services, LLC (Service Provider) for "Distance Learning Circuit for 1 School, 25 Simultaneous connections, Complete HD Service." According to the contract, this was an "annual contract-not a monthly payment."

The Service Provider submitted one SPI to the SLP on July 31, 2015, for $54,216 ($60,240 discounted at 90 percent). This SPI indicated that the delivery date to the Beneficiary was July 1, 2015, and that the period of performance was from July 1, 2015, through June 30, 2016.

We noted that the Service Provider bill did not contain sufficient detail to verify that the services actually received by the Beneficiary corresponded to the services approved on the FCC Form 471. The quote, contract, and invoice did not include a technical description of the services that would enable us to validate the documents against the information contained in the Beneficiary's approved FCC Form 471, and the Service Provider was unable to provide any additional evidence during our audit that would enable us to conclude that the Service Provider provided the Fiber, 100 Mbps telecommunications services that had been approved by the SLP.
In addition the Service Provider invoiced USAC for the full year of service prior to delivering the services through the year. We were unable to obtain evidence that the Service Provider provided the Digital Transmission Services, Lit Fiber Service, 100 Mbps on a monthly basis throughout the funding year, as required, and requested on the approved FCC Form 471 for recurring service. Therefore, the Service Provider invoiced SLP for services that it could not support had been delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. The $54,216 disbursed is considered not eligible for reimbursement under the SLP.

FRN 2859606
The Beneficiary received funding of $43,740 for recurring Internet access support under FRN 2859606. The approved FCC Form 471 specified that monthly eligible pre-discount costs for this service were $4,050, with an annual approved cost of $48,600. On March 6, 2015, the Beneficiary entered into a contract with VC Services, LLC (Service Provider) to obtain the requested support services. The contract had a period of performance of July 1, 2015, through June 30, 2016.

On July 1, 2015, the Service Provider billed the Beneficiary $4,860 for the Beneficiary's non-discounted share of the services. The Service Provider then invoiced the SLP for the funded amount in two SPIs, one for $30,600 ($34,000 discounted at 90 percent) dated July 24, 2015, and one for $13,140 ($14,600 discounted at 90 percent) dated July 31, 2015. Both SPIs indicated that the delivery date to the Beneficiary was July 1, 2015. The Service Provider therefore invoiced USAC for the full year of service after providing less than one month's worth of service.

In addition, we noted that the Service Provider did not provide bills to support the SPIs. The description of services included in the Service Provider's quote stated, "Broadband Fiber-Complete Annual Service 200 mb/s Up, 200 mb/s Down Dedicated Internet Access and MPLS, $48,600." However, the quote did not contain a breakdown of costs that would enable us to verify the SPIs against the quote. Therefore, the Service Provider invoiced SLP for services that it could not support had been delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. The $43,740 disbursed is considered not eligible for reimbursement under the SLP.

The Service Provider invoiced the SLP prior to providing the service to the Beneficiary and did not provide bills to support its SPIs. We were therefore unable to obtain evidence that the Service Provider provided Internet services on a monthly basis throughout the funding year, as required, and requested on the approved FCC Form 471 for recurring service.

Cause
The Beneficiary did not have processes in place to ensure that USAC was invoiced for services only after services were rendered, delivered, and properly billed by its Service Providers.

Effect
The monetary effect of this finding is $124,088, or the total amount funded and disbursed for the FRNs.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2859748 (BMIC)	$26,132	$26,132	$26,132
2859694 (Telecom)	$54,216	$54,216	$54,216
2859606 (Internet)	$43,740	$43,740	$43,740
Total	**$124,088**	**$124,088**	**$124,088**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary implement controls to ensure that it invoices SLP only after services have been rendered and delivered.

3. The Service Providers implement controls to ensure that it invoices SLP only after services have been rendered and delivered.

Beneficiary Response

Please note as long as the schools is under contract with the vendor and the school paid their E-rate share – the vendor is allowed to bill, as per USACs invoicing department. She attached link and refer to bullets 1-5.

See p. 3, bullets # 1-5
http://www.usac.org/_res/documents/sl/pdf/forms/FCC-Form-474-UserGuide.pdf
Here is the section we refer to:

Before You Begin
This user guide does not include all of the rules and requirements for the Schools and Libraries (Erate) Program. Before you start preparing your FCC Form 474, you should be familiar with the eligibility rules and filing procedures. Additional information is available on the USAC website.

ALL of the following conditions must occur before a service provider prepares and submits the FCC Form 474 to USAC:

1. *The service provider receives a Funding Commitment Decision Letter (FCDL) from USAC which approves eligible discounts for services; AND*

2. *The eligible applicant is already receiving or has received these services; AND*

3. *The service provider has billed the applicant for its non-discount share of the services; AND*

4. *The service provider has received its FCC Form 486 Notification Letter; AND*

5. *The service provider has filed an FCC Form 473, Service Provider Annual Certification Form, for the corresponding funding year.*

Service Provider Response

FRN 2859694
The inconsistency is the interchangeability of the service nomenclature. The school requests a 100 Mbps eCircuit which for our company is a Tier One service that provides up to 25 concurrent meeting rooms (i.e. 25 other schools can interact with the Beneficiary during the same session.). Thus the bill will state up to 25 concurrent sessions.

In the event the school requires a greater capacity then the bandwidth would be greater and the cost of a Tier Two circuit would be greater as well.

FRN 2859606
As per USAC SLP Senior Manager, during numerous Vendor & Applicant Training sessions, applicants who pay their vendors on an annual basis receive a discount, as well as applicant engaged in a multiyear contract. Under this scenario USAC SLP Senior Manager indicated that Invoicing will consider a usual monthly reoccurring service as an annual service to be paid by the applicant and billed to USAC as a one-time fee. This was the most cost effective mode of receiving the service a USAC requirement.

In fact, in this instance, USAC vetted the requested, requested supporting documentation and paid the invoice as per USAC SLP Senior Manager's instructions. This was also confirmed by the head of USAC's invoicing department.

In addition we maintain that the issue is Moot, the service provider unequivocally delivered the service during FY 2015, the Beneficiary has validated that they received & paid for the service. Any return of funds, appeals for the recovery of these funds, rebilling and repayment is a waste of every one's time.

Auditor Response
The Beneficiary and Service Provider's responses do not adequately address the issues identified during our testing of the referenced FRNs. As part of our testing, we determined that the services contracted under these FRNs constitute transmission services provided on a recurring basis throughout the period, rather than at a single point in time. Beneficiaries may enter into an annual contract if the service provider does not bill until the end of the service period; however, the service provider may not bill at the beginning of the service period, prior to delivering the services for the period. The instructions for Block 2 in FCC Form 474 state, "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**" (emphasis added). Whether the advance payments were cost-effective is irrelevant because the Service Provider is not allowed to invoice the SLP until it has performed the recurring services.

In addition, the Service Provider indicated that the services provided under FRN 2859694 included up to 25 concurrent sessions in which 25 other schools could interact with the Beneficiary. During fieldwork, the Beneficiary indicated that only a few of its classrooms were able to use video conferencing, and the site map/floor plans that the Beneficiary provided did not include information related to this distance learning capacity. Based on the Service Provider's explanation regarding off-campus use and the lack of evidence that the Beneficiary maintains 25 eligible concurrent locations, we were unable to obtain sufficient evidence that the Beneficiary had received the approved eligible services at the time of invoicing.

As a result, our position regarding the finding does not change.

<u>Finding No. 3, 47 C.F.R. § 54.502(a) – Beneficiary Over-Invoiced SLP for Ineligible Services</u>

Condition
The Beneficiary over-invoiced the SLP and included ineligible services in its reimbursement requests.

FRN 2799218
The Beneficiary submitted two BEARs on November 12, 2015, under FRN 2799218 related to cellular voice services provided over the four-month period of July through October 2015, for a pre-discount total of $15,325. USAC reimbursed the Beneficiary $10,728 for the billed services.

We examined the Beneficiary's BEARs and Service Provider bills and determined that the monthly amounts requested by the Beneficiary in its BEARs exceeded the approved monthly requests in its FCC Form 471 for each of the months requested. The Beneficiary requested and received reimbursement for $10,728, or $6,528 more than the $4,200 approved to be invoiced ($1,050 post-discounted monthly cost for four months).

The Beneficiary also did not allocate eligible and ineligible amounts as required by the Rules; as such, its reimbursement requests included costs that were not eligible for reimbursement. The Beneficiary submitted the entire amount of the monthly Service Provider bill in its BEAR reimbursement requests, including all usage and roaming fees, without considering whether the usage related to educational purposes. In addition, the cell phone plan for these services included voice, text, and data components; however, text and data components are ineligible for SLP reimbursement.

Many of the billed lines included more than 500 voice minutes and/or 500 text message units during the month, and all showed significant night and weekend minutes. In addition, the Service Provider's July 23, 2015, invoice billed for 63 lines; however, 30 of these lines were duplicates, as the service provider invoiced 2 lines for each individual. The 63 lines also exceeded the 35 lines approved for funding under this FRN.

In addition, the Beneficiary received equipment credits of $(4,648) as part of the Service Provider's invoice dated August 23, 2015. These credits were not outlined in the Beneficiary's contract, and the Beneficiary did not adjust the BEARs to account for the credits, or rebates.[6] According to the 2015 Eligible Services List, end user equipment is not eligible for support. Based on the unallocated, ineligible, and unapproved costs included in the Beneficiary's billings, we were not able to determine the total ineligible services requested for reimbursement and, therefore, the full disbursement of $10,728 was considered ineligible for reimbursement.

FRN 2799151
The Beneficiary requested and received funding under FRN 2799151 for Internet Access, Digital Transmission Service, Ethernet, upload speed 1.5 Mbps and download speed 2.5 Mbps services. The SLP approved a total monthly pre-discount cost of $850, with an annual cost of $10,200. After applying the Beneficiary's 90 percent discount rate, the total amount approved for invoicing was $9,180. The Beneficiary contracted with Sycamore Leaf Solutions, LLC (Service Provider) to obtain the requested services. The Beneficiary submitted four BEARs to USAC for these services. USAC has paid three of the BEARs, for a total of $893. The last BEAR, totaling $1,611, is under review.

We examined the Beneficiary's vendor quotes and Service Provider bills and noted that the vendor quote the Beneficiary provided to support the cost of services was for a school management software program called Sycamore School. According to the Service Provider's website, Sycamore School is a cloud-based school management and student information software program to be used by the school administration, teachers, and parents. This software application is considered ineligible as the 2015 Eligible Services List states "e*xamples of items that are ineligible components of Internet access include applications, content…*"

[6] *See* 47 CFR §54.523 (2014).

We reviewed the Service Provider's terms of service for a sample contract, available online. The terms of service state:

> *Sycamore Leaf Solutions, a service that allows you to manage your organizations data on the World Wide Web (the "Service")… In order to use the Service, you are responsible at your own expense to access to the World Wide Web, either directly or through devices that access web-based content and pay any service fees associated with such access. In addition, you must provide all equipment necessary to make such connection to the World Wide Web, including a computer and modem or other access device.*

The Beneficiary did not provide sufficient response to our inquiries regarding the specific services provided under this FRN. However, it does not appear that the Service Provider provided the Internet access services approved for funding under FRN 2799151. Furthermore, the software and content provided does not meet SLP eligibility guidelines for Funding Year 2015.

FRN 2799208
The Beneficiary requested and received funding of $1,944 ($2,160 discounted at 90 percent) for Digital Transmission Service, Ethernet, 1.5 Mbps upload speed and 2.5 Mbps download speed, under FRN 2799208. The Beneficiary contracted with Constant Contact (Service Provider) to obtain the requested services. The Service Provider submitted one SPI for $81 in September 2015. USAC's records indicate that USAC has not paid this SPI; its status is "Incomplete – Pending Validation." We determined that the Service Provider is an email software company that provides schools with software to share calendars, news, and event information with families; it does not provide digital transmission services.

Based on the Service Provider's offerings as well as relevant support documentation, it does not appear that the Service Provider provided the Ethernet approved for funding under FRN 2799208. Furthermore, the software provided does not meet SLP eligibility guidelines for Funding Year 2015. The 2015 Eligible Services List states "e*xamples of items that are ineligible components of Internet access include applications, content…"*

Cause
The Beneficiary did not have processes in place to ensure that its BEARs were in compliance with SLP requirements and that it understood SLP eligibility guidelines. In addition, the Beneficiary did not ensure that all services requested met eligibility requirements under the SLP Rules.

Effect
The monetary effect of this finding is $21,852.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2799218 (Voice)	$10,728	$10,728	$10,728
2799151 (Internet)	$9,180	$893	$9,180
2799208 (Internet)	$1,944	$0	$1,944

Total	**$21,852**	**$11,621**	**$21,852**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary implement controls to verify that it reviews invoices and removes ineligible costs to ensure that its BEARs are accurate before submitting them to the SLP.

Beneficiary Response

FRN 2799218
The schools accidently overbilled USAC.

FRN *2799151*
Please note that the school already returned the funding money for Sycamore to USAC.

FRN 2799208
At this time we won't dispute your findings, although we are still working with the company for a clearer understanding of the description of the service.

Auditor Response
The Beneficiary did not provide any evidence to support its claim that it has returned the funding received related to the Sycamore Leaf Solutions services under FRN 2799151. In addition, the Beneficiary had an outstanding invoice for additional services from Sycamore Leaf Solutions that was under review at the time of reporting. The Beneficiary also did not address how it plans to improve controls to ensure that it only requests and bills eligible products and services in the future. As a result, our position regarding the finding does not change.

Finding No. 4, Form 472 Instructions, at 4 – Beneficiary Did Not Pay Service Provider Bills Before Invoicing SLP

Condition
The Beneficiary did not pay the Service Provider before invoicing the SLP for cellular voice services requested under FRN 2799218. The Beneficiary entered into a contract with Verizon Wireless (Service Provider) to purchase a number of Nationwide Email & Data 600 Plans. The Beneficiary submitted two BEARs related to services provided over the four-month period of July through October 2015, for a pre-discount total of $15,325. USAC reimbursed the Beneficiary $10,728 for the billed services.

We attempted to examine the Service Provider's bills and evidence of payment to determine whether the Beneficiary paid the bills before submitting its BEARs. We reviewed the Service Provider's bills for July 2015 through June 2016 and noted that only the January 2016 bill indicated that the Service Provider had received payment during the period. The Beneficiary provided a copy of a $10,500 check made payable to the Service Provider and dated January 8, 2016 (after receiving reimbursement for the submission of the BEARs). The Beneficiary did not make any other payments through the year and by June 2016, had an outstanding balance with the Service Provider in excess of $22,617.

Cause
The Beneficiary did not have controls in place to ensure that it paid the Service Provider for the services in full before invoicing the SLP, in accordance with the Rules.

Effect
The monetary effect, recommended recovery and commitment adjustment of this finding is $10,728 ($15,325 discounted at 70 percent), the amount disbursed.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2799218 (Voice)	$10,728	$10,728	$10,728

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment by the amount stated above.

2. The Beneficiary implement controls to ensure that it submits BEARs for reimbursement through the BEAR method only after it has paid its service provider for the services in full.

Beneficiary Response
I am re-attaching the Verizon Check.

Auditor Response
As noted in the condition section of the finding, the Verizon check that the Beneficiary references in its response is only a partial payment of amounts owed to the Service Provider; in addition, the Beneficiary did not make the payment until after invoicing the SLP. Per the FCC Form 472 (BEAR) instructions, the Beneficiary may not invoice for services until it has received and paid for the services. Specifically, the BEAR instructions state, "The total undiscounted amount represents the total amount paid per FRN for which you are seeking reimbursement of the discount on this BEAR. This total undiscounted amount should reflect the charges for services actually received and should not be an estimated amount." As a result, our position regarding the finding does not change.

Finding No. 5, 47 CFR § 54.501 – Beneficiary Over-Invoiced SLP for Services Delivered to Ineligible Locations and for Ineligible Students

Condition

The Beneficiary invoiced the SLP for ineligible locations and additional lines, and did not allocate costs for ineligible students. The Beneficiary requested and received funding for voice services under four separate FRNs: 2799132, 2799178, 2799174, and 2799183. The Beneficiary contracted with Pacific Bell Telephone Company (doing business as [dba] AT&T) (Service Provider) to obtain local and long-distance services for 28 voice lines, as follows:

FRN	Number of Lines	Pre-Discount Monthly	Pre-Discount Annual Approved Cost	Discounted Commitment at 70 Percent
2799132 (Voice)	15	$850	$10,200	$7,140
2799178 (Voice)	3	$200	$2,400	$1,680
2799174 (Voice)	6	$450	$5,400	$3,780
2799183 (Voice)	4	$250	$3,000	$2,100
Total	**28**	**$1,750**	**$21,000**	**$14,700**

The Beneficiary also requested and received funding for another ten long-distance-only lines from the Service Provider under FRN 2799164. The SLP approved a discounted annual funded amount of $869 ($1,241 discounted at 70 percent). No disbursements were made as of the announcement date on this FRN.

We examined the Beneficiary's BEARs, funding requests, Service Provider bills, and other available documentation and identified the following issues with these FRNs and the services provided:

- Service Provider bills supporting the Beneficiary's BEARs indicated that the Beneficiary invoiced the SLP for unapproved telephone lines and did not remove the cost of ineligible services from the bills before invoicing the SLP. The Beneficiary invoiced the SLP for 18 lines each month under FRN 2791132; however, the SLP only approved funding for 15 lines. The Beneficiary invoiced the SLP for 7 lines each month under FRN 2799174; however, the SLP only approved funding for 6 lines. In addition, we reviewed the Service Provider bills for all FRNs and noted that the business line rates included ineligible costs for caller ID, inside wire protection, and remote message retrieval service. The Beneficiary did not remove these ineligible costs from the amounts claimed for reimbursement. USAC has already reimbursed a number of these ineligible costs. There is currently an invoice totaling $1,934 under review.

- We reviewed the school floor plan and noted that the Beneficiary had ineligible classroom locations, such as infant and child-care classrooms. We therefore requested that the Beneficiary provide the room location associated with each phone number under the FRN and identify the teacher or administrative personnel assigned to that location. The Beneficiary did not provide this information; instead, it responded[7], "Each classroom, office, and room throughout all buildings have a phone. The highlighted numbers are the numbers one is to call if they want to reach the school. If someone is on the phone or one wants to make outgoing calls they can use any phone. The individual phones are not labeled." Based on these responses and the results of our invoice testing, we determined that the Beneficiary did not perform any allocation to remove costs related to ineligible students from the Service Provider bills before invoicing the SLP.

- The Beneficiary identified two lines under FRN 2799132 and one line each under FRNs 2799178 and 2799183 as incoming lines for the school. However, based on our Internet research and our review of Service Provider bills and payment documentation, we determined that the line funded by FRN 2799183 is the main phone line for Mikvah Israel, a religious building, located at 5170 La Dorna Street, not for the school. We also determined that the line funded by FRN 2799178 is the main phone line for Chabad Scripps Ranch, which is run by the private parent entity at the school's address that provides adult education services, and not services for the Beneficiary. When USAC requested that the Beneficiary provide vendor documentation to support the funding request amount for these two FRNs as part of an April 2016 USAC Review, the Beneficiary had indicated that both of the FRNs should be cancelled. However, the Beneficiary made payments on these FRNs and submitted additional BEARs to the SLP requesting reimbursement for the payments, which totaled $3,569 ($1,656 on FRN 2799132, $257 on FRN 2799178, and $1,656 on FRN 2799183). These BEARs are currently under review.

- The Beneficiary has not submitted any invoices for the ten long-distance lines under FRN 2799164; however, given that the Beneficiary's other 28 lines are also long-distance lines with the same service provider, this request appears unnecessary and duplicative.

The Beneficiary received reimbursement for lines that were not requested or approved for support, did not provide documentation to support the eligibility of the lines' locations, did not remove ineligible services or services for ineligible students from the Service Provider bills before requesting reimbursement, and continued to invoice for FRNs the Beneficiary had requested to be cancelled. We therefore concluded that the Beneficiary over-invoiced for ineligible or duplicative services.

[7] In email with answers to follow up questions posed by Cotton on January 19, 2017 from the Beneficiary's consultant, Leah Lax, of S. Gold Consulting Ltd. sent to Jean Davis, Senior Audit Manager, on February 6, 2017.

Voice FRN	Number of Local Voice Lines Approved	Number of Lines Invoiced	Number of Lines Unapproved or Ineligible	Disbursements Paid Through the Audit Announcement Date	Dollar Amount of Invoices Under Review Awaiting Payment	Total Commitment
2799132	15	18	3	$1,725	$1,656	$7,140
2799178	3	1	1	$150	$257	$1,680
2799174	6	7	1	$737	$1,934	$3,780
2799183	4	1	1	$87	$1,656	$2,100
Total	**28**	**27**	**6**	**$2,699**	**$5,503**	**$14,700**

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices for services approved by the SLP. In addition, the Beneficiary did not have controls in place to ensure that it did not request reimbursement for cancelled FRNs.

Effect
The monetary effect of this finding is $15,569, or the total discounted commitment authorized to the Beneficiary. In addition, we recommend recovery of $2,699, or the amount disbursed through the BEARs submitted and tested during our audit.

Voice FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2799132	$7,140	$1,725	$7,140
2799174	$3,780	$737	$3,780
2799183	$2,100	$87	$2,100
2799178	$1,680	$150	$1,680
2799164	$869	$0	$869
Total	**$15,569**	**$2,699**	**$15,569**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. USAC deny the $5,503 in outstanding invoices currently under review.

3. The Beneficiary implement stronger review controls to ensure that BEARs only include the cost of eligible and approved services before submitting the BEARs to the SLP.

Beneficiary Response

Based on our knowledge, as long as it's within the same ballpark - APPROXIMATELY the same number of lines it's not a problem. Regarding the issue with the name difference, I'm sending in a DBA to clarify the name difference on the 2 lines.

Auditor Response

The Instructions to the FCC Form 471 state that Item 21 on the FCC Form 471 should include the specific quantity of last-mile lines. In addition, the FCC Form 472 (BEAR) states that the Beneficiary should only invoice for approved eligible services. Specifically, the BEAR states:

> *The total undiscounted amount represents the total amount paid per FRN for which you are seeking reimbursement of the discount on this BEAR. This total undiscounted amount should reflect the charges for services actually received and should not be an estimated amount. The total undiscounted amount should also not be the total annual amount for the FRN, unless you are making an annual filing or are contractually obligated to pay the entire cost of services. You* ***must*** *deduct charges for any ineligible services, or for eligible services delivered for ineligible recipients or used for ineligible purposes.*

We reviewed the DBA information that the Beneficiary provided as part of its response and noted that the DBA indicated that Friends of Chabad Lubavitch, San Diego, a Corporation was doing business as Chabad Hebrew Academy. One of the questioned lines is also one of the Friends of Chabad Lubavitch's lines, however, it is for its Chabad Scripps Ranch and does not provide service to the Chabad Hebrew Academy for eligible use. As a result, our position regarding the finding does not change.

Finding No. 6, FCC Form 474 Instructions, at 3 – Service Provider Over-Invoiced SLP for Services Not Requested by the Beneficiary

Condition

The Beneficiary and Time Warner Cable (Service Provider) performed an unauthorized service substitution. The Beneficiary received funding of $10,799 ($11,999 discounted at 90 percent) for Digital Transmission Service, Cable Modem Internet 1.5 Mbps upload, and 2.5 Mbps download speed under FRN 2799140 and entered into a contract with the Service Provider to obtain these services. The contract's period of performance was from July 2015 through June 2016.

The July and August 2015 invoices describe the services billed as "Direct Connect," which is cable access as requested and approved on the Beneficiary's FCC Form 471. However, the Service Provider's September 2015 invoice includes a line item for "Fiber Install" with a $0 charge, and the September 2015 through June 2016 invoices describe the service billed as "Dedicated Internet Access 200m," which is fiber access. The Beneficiary was unable to provide any documentation supporting that USAC had approved substituting a fiber service for the approved cable service. The September 2015 through June 2016 fiber services were therefore unrequested or approved services that are eligible for SLP funding.

Cause
The Beneficiary did not have sufficient processes in place to ensure that USAC was invoiced for services requested per the approved FCC Form 471 or that a service substitution was submitted as required by the Rules.

Effect
The monetary effect of this finding is $8,999 ($999.95 per month for the 10 months of fiber Internet service discounted at 90 percent). The Service Provider submitted SPIs in excess of the commitment amount during this period; however, the SPIs are currently under review. We are not recommending a commitment adjustment at this time. We also do not recommend a recovery amount at this time.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2799140 (Internet)	$8,999	$0	$0

Recommendation
We recommend that:

1. USAC evaluate whether it would have approved the service substitution when considering whether to pay or decline the invoices on hold.

2. The Beneficiary implement controls to ensure that it invoices for services requested per the approved FCC Form 471 or that it submits a service substitution as required by the Rules.

Beneficiary Response

See below regarding the change in service. (I attached the original document as well)

> *23. Service Substitution. Parties have the opportunity to make legitimate changes to requested services when events occur that make the original funding request impractical or even impossible to fulfill. Last December, we codified rules to address requests for service or equipment changes, concluding that allowing parties to make such substitutions is consistent with our goal of affording schools and libraries maximum flexibility to choose the offering that meets their needs more effectively and efficiently. 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. In situations where the service substitution would not meet the criteria established in our rules, the appropriate amount to recover is the full amount associated with the service in question.*

Auditor Response

As the Beneficiary indicated in its response, the SLP allows beneficiaries to make changes to requested services. However, beneficiaries must file a service substitution request form prior to making the changes; in this case, the Beneficiary did not do so. We are not recommending recovery, as it appears that the substituted service would have met the criteria had the Beneficiary filed a substitution request. As a result, our position regarding the finding does not change.

Finding No. 7, Second Report & Order, FCC 03-101, 18 FCC Rcd 9202, 9209-10, paras 22, 24- Beneficiary Over-Invoiced SLP for Duplicate Services

Condition

The Beneficiary requested duplicative funding for both Internet and digital transmission services. The Beneficiary only filed one FCC Form 470, Application 951330001255875, for all Internet and digital transmission services. The form's description of needs or services requested includes "cable internet," "T3/Highspeed internet," and "Digital Transmission Services." The form indicated that the Beneficiary required all three services for each of the 7 buildings that contain the school's 60 classrooms and offices. The Beneficiary is a private school with one school campus. We examined SLP funding requests and Service Provider contract documents to determine the eligibility of funded services. Based on our review of the resulting FCC Form 471s, we determined that the Beneficiary submitted multiple support requests for the same FCC Form 470 service line items, as outlined below.

The Beneficiary contracted with Time Warner Cable to obtain the school's least cost Internet access. The Beneficiary requested and received funding under FRN 2799140 for Internet Access, Digital Transmission Service, Cable Modem, purpose Internet, 1 line, 1.5 Mbps upload speed and 2.5 Mbps download speed. The SLP approved the FCC Form 471 for FRN 2799140 at a total pre-discount amount of $11,999. The Beneficiary and Time Warner Cable converted the approved cable access to fiber 200 Mbps service in September 2016.

The Beneficiary also contracted with VC Services, LLC to obtain additional Internet support. The Beneficiary requested and received funding under FRN 2859606 for Internet Access, Digital Transmission Service, Lit Fiber Service, 200 Mbps. The Beneficiary described this service as a high-speed multi-channel Internet connection to all buildings, while VC Services, LLC's invoice described it as "Broadband Fiber - Complete Annual Service 200mb/s Up, mb/s Down Dedicated Internet Access and MPLS." The SLP approved the FCC Form 471 for FRN 2859606 at a total pre-discount amount of $48,600. VC Services, LLC invoiced and was paid $43,740. These service descriptions are similar to the services provided by Time Warner Cable. Per the Macomb Order[8], only the least expensive duplicative funding provided to Beneficiary's location would be reimbursed. Therefore, the $43,740 disbursed under FRN 2859606 is considered ineligible.

[8] *Request for Review by Macomb Intermediate School District Consortium Clinton Township, MI,* CC Docket No, 02-6, Order, 22 FCC Rcd. 8771, FCC 07-64 (2007).

The Beneficiary also requested funding for Internet access services under four additional FRNs, including FRN 2878918. The Beneficiary contracted with MC Networking Group, Inc. for Internet access services under this FRN, and the SLP approved a total pre-discount amount of $44,400 for these services ($39,960 discounted). When questions were raised during a USAC Program Integrity Assurance (PIA) review, the Beneficiary indicated that it was the "Fiber Internet connecting all buildings" as it described the VC services. After further questions during the PIA review, the Beneficiary requested that USAC cancel the FRN, and USAC's records now show $0 committed for this FRN.

USAC's records also show that commitments for the other three FRNs (2799240, 2799266, and 2799307) have been reduced to $0. However, we noted that the amounts requested for FRNs 2799266 and 2799307 were identical to the amounts funded under other FRNs for services provided by VC Services, LLC.

In addition, the Beneficiary requested funding for digital transmission services under two separate FRNs. The Beneficiary requested and received funding of $54,216 for Digital Transmission Service, Fiber 100Mbps, under FRN 2859694 and contracted with VC Services, LLC to obtain the requested services. However, VC Services, LLC's price quote and invoice indicate that it provided the Beneficiary with a distance learning circuit for one school, as well as 25 simultaneous connections and complete HD service. The Beneficiary was unable to provide any documentation to support that VC Services, LLC provided two separate Fiber circuits at 100 Mbps as requested and approved on the Form 471. VC Services, LLC invoiced the full $54,216 committed for FRN 2859694. Per the Macomb Order[9], only the least expensive duplicative funding provided to Beneficiary's location would be reimbursed. Therefore, the $54,216 disbursed under FRN 2859606 is considered ineligible.

The Beneficiary also requested and received funding of $1,944 ($2,160 discounted at 90 percent) for Digital Transmission Service, Ethernet, 1.5 Mbps upload speed and 2.5 Mbps download speed, under FRN 2799208. The Beneficiary contracted with Constant Contact to obtain the requested services. Constant Contact submitted one SPI for $81 in September 2015. USAC's records indicate that USAC has not paid this SPI; its status is "Incomplete – Pending Validation." We determined that Constant Contact is an email software marketing company and does not provide digital transmission services, however, the request as a Digital Transmission Ethernet service is considered duplicative.

Cause
The Beneficiary was unable to provide clear or complete explanations or evidence regarding its multiple requests for similar services and did not demonstrate sufficient understanding of the SLP Rules.

Effect
The monetary effect of this finding is $99,900, or the amount disbursed under all three FRNs. The total impact to commitments is $99,900.

[9] Ibid.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2859606 (Internet)	$43,740	$43,740	$43,740
2859694 (Telecom)	$54,216	$54,216	$54,216
2799208 (Internet)	$1,944	$0	$1,944
Total	**$99,900**	**$97,956**	**$99,900**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. USAC not pay the outstanding invoice for FRN 2799208.

3. The Beneficiary implement controls to ensure that:

   - Future SLP funding requests are accurate and non-duplicative and only relate to eligible services.

   - It maintains supporting documentation in accordance with the SLP Rules.

Beneficiary Response

FRN 2859606 is a Distance Learning Circuit, that's unrelated to the HS connection. Please note the MC network working was an error and was a valid vendor in the first place.
The Time Warner Internet is a standard internet for the administration building. VC Services is a HS speed specialized multichannel fiber internet for the ENTIRE school (All buildings except for the preschool.) Constant contact was an email service/web hosting service.

Audit Response
The Beneficiary is a single school that serves approximately 200 students. The Beneficiary requested and received funding for similar Internet or Ethernet service connections under each of the FRNs noted in the finding; it was not until questions were raised during USAC reviews and this audit that USAC determined that the services the Beneficiary received under certain FRNs either were not necessary or were not the approved eligible service. As such, our position regarding the finding does not change.

Finding No. 8, 47 C.F.R. § 54.505 – Improperly Calculated Discount

Condition

The Beneficiary used an improper methodology in calculating its discount rate. The Beneficiary obtained information regarding its students from scholarship applications completed by the parents each year. This information included areas such as family size, income level, grade level, and whether the family participated in other assistance programs. The Beneficiary then used this scholarship data and a table in the USAC SLP Example Survey to conclude as to each student's eligibility for free and reduced lunch. However, the Beneficiary erroneously assumed that all family sizes and income levels included in the table qualified for free and reduced lunches. The table in the USAC SLP Example Survey was not an eligibility table and was not intended to be used in calculating discounts; instead, the Beneficiary should have used the U.S. Department of Agriculture's Income Eligibility Guidelines to determine National School Lunch Program (NSLP) eligibility. As a result of its incorrect assumption, the Beneficiary erroneously concluded that it had 99 percent eligibility for free and reduced lunches, as it determined that 225 of its 228 students were eligible for free and reduced lunches.

In addition to the guideline error, we noted that the number of students the Beneficiary used in calculating its discount rate did not agree to the number of students the Beneficiary reported on its FCC Form 471. The Beneficiary overstated the total number of students by 44 in calculating its discount rate, as it only provided enrollment data for 184 students. Based on the proper NSLP eligibility table guidelines, only 107 of these 184 students were eligible for free or reduced lunch or qualified based on receiving support from other programs. The Beneficiary's eligibility percentage therefore should have been 58 percent rather than 99 percent, as the Beneficiary reported. Based on this lower eligibility, the Beneficiary qualified for lower discount rates than were approved and paid during Funding Year 2015, as follows:

FRN	Total Students Per Survey	Eligible for Free and Reduced Lunch per Survey	Recalculated Percentage of Students Eligible for NSLP	Discount Based on USAC's Rate Table	Discount per Form 471
Voice	184	107	58%	60% 2015 reduction (80% - 20%)	70%
Telecom	184	107	58%	80%	90%
Internet	184	107	58%	80%	90%
BMIC	184	107	58%	80%	85%

Cause

The Beneficiary did not understand that the sample survey included on the SLP website was provided for Beneficiaries to send to enrolled families, not to be used as an eligibility table to determine whether students were eligible under the NSLP program.

Effect

The monetary effect of this finding is $21,396. The errors in the student count resulted in an over-approval of $6,600 in Category 2 funding. We recommend a commitment adjustment of $21,396. This includes the recommended recovery amount of $16,953, or the difference between the amount that USAC disbursed and the amount that USAC should have disbursed if the Beneficiary had used the correct discount rate.

FRN	Service	Correct Discount Rate	Revised Commitment Using Correct Discount Rate	Monetary Effect/ Commitment Adjustment (Difference Between the Original and Revised Commitments)	Recommended Recovery (Based on the Difference Between the Incorrect and Correct Discount Rates)
2859748	BMIC*	80%	$22,080	$4,052	$4,052
2799178	Voice	60%	$1,440	$240	$21
2799151	Internet	80%	$8,160	$1,020	$99
2799164	Voice	60%	$745	$124	$0
2799174	Voice	60%	$3,240	$540	$105
2799183	Voice	60%	$1,800	$300	$12
2799202	Voice	60%	$0	$0	$0
2799208	Internet	80%	$1,728	$216	$0
2799218	Voice	60%	$10,800	$1,800	$1,533
2799132	Voice	60%	$6,120	$1,020	$246
2859606	Internet	80%	$38,880	$4,860	$4,860
2859694	Telecom	80%	$48,192	$6,024	$6,024
2799140	Internet	80%	$9,600	$1,200	$0
Total			**$152,785**	**$21,396**	**$16,953**

*The revised commitment accounts for the impact of the corrected student count on the Beneficiary's Category 2 budget. For FRN 2859748 the maximum pre-discount commitment based on the revised budget was $27,600, instead of the $30,744 originally requested.

Recommendation

We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary update its methodology for determining its discount calculation to comply with SLP requirements and improve controls to ensure the accuracy of reported student counts.

Beneficiary Response

Please note the numbers were incorrectly entered on the form 471. The initial numbers that were entered based on the enrollment. Upon initial enrollment each student was required to bill out a survey. That was the number entered on the form 471. Based on the current enrollment as per the excel sheet the total number of students enrolled is 216 and 185 are eligible.

Auditor Response
We were not provided an excel sheet with the response, however, current enrollment figures are not relevant to this audit. The Beneficiary did not provide support for the 228 total students and 225 eligible students that it reported on its FCC Form 471, and the enrollment data that it provided during the audit did not support these figures. In addition, the Beneficiary's response did not address how it plans to resolve the issues related to its discount rate calculation process to ensure compliance with the Rules.

Criteria

Finding	Criteria	Description
1, 2, 3, 4, 5, 6, 7, 8	47 C.F.R. § 54.516(a) (2014).[10]	***Recordkeeping requirements*** *(1) 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 two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.* ***(2)Service providers.*** *Service providers shall retain documents related to the 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.*
1, 2, 3	47 C.F.R. § 54.502(a) (2014).	*Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance 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. The supported services fall within the following general categories: (1) Category one. Telecommunications services,*

[10] Effective July 1, 2015.

Finding	Criteria	Description
		telecommunications, and Internet access, as defined in §54.5 and described in the Eligible Services List are category one supported services. (2) Category two. Internal connections, basic maintenance and managed internal broadband services as defined in §54.500 and described in the Eligible Services List are category two supported services.
1, 2	*Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6 *et. al.*, 29 FCC Rcd 13404, at 6 (2014) (*2015 Eligible Services List*).	*Basic Maintenance of Eligible Broadband Internal Connections Components* *E-rate support is available for basic maintenance and technical support appropriate to maintain reliable operation when provided for an eligible broadband internal connections component.* *The following basic maintenance services are eligible:* • *Repair and upkeep of eligible hardware* • *Wire and cable maintenance* • *Configuration changes* • *Basic technical support including online and telephone based technical support* • *Software upgrades and patches including bug fixes and security patches*
1, 2, 6	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice Form, OMB 3060-0856 (July 2013), at 3 (*FCC Form 474 Instructions*)	***Block 2: Columns (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….*** ***Column (8)*** *- Bill Frequency. Provide the appropriate billing frequency from the drop down box for online filing or enter one of the following choices on the paper form: Monthly, Quarterly, Annually, One-Time, or Other. Please note that only Column 9 OR Column 10 should be completed for each FRN (i.e., each line on the form). Please do NOT complete BOTH Columns 9 and 10 for the same FRN. Also, the date featured in this column cannot be earlier than the Service Start Date featured in the FCC Form 486 Notification Letter. Only services received in the applicable Funding Year for each FRN are eligible for discounts.* ***Column (9)*** *- Customer Billed Date. Use this Column for reimbursement of bills for recurring services and for multiple installments for non-recurring services. The month*

Finding	Criteria	Description
		and year you enter in this column should be for the first month you provided services represented by the amount in Column (13). The date must be in month and 4-digit year (mm/yyyy) format and must be within the funding year. For example: *• If you send your customer a monthly bill dated June 15, 2016 for recurring services from July 1to July 31, you should enter 07/2016.* *• If you send your customer a quarterly bill dated November 1, 2016 for recurring services from October 1to December 31, you should enter 10/2016.* *• If you send your customer a bimonthly installment bill dated September 10, 2016 for non-recurring services from September 1to October 31, you should enter 09/2016.* ***Column (10)** - Shipping Date to Customer or Last Day of Work Performed. Use this Column for reimbursement for non-recurring services billed one time only such as Internal Connections. The date in Column (12) should be either the date that the products were shipped or the last date that you performed your work. This date should be in month/day/four digit year (mm/dd/yyyy) format….* ***Block 3: Service Provider Certifications and Signature*** *After completing the top of page 3 (Service Provider Form Identifier, Contact Person and Contact Telephone number), this Block requests that a person authorized to submit the Service Provider Invoice Form on behalf of the Service Provider. 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:* *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.*

Finding	Criteria	Description
		B. I certify that the certifications made on the Service Provider Annual Certification Form (FCC Form 473) by this Service Provider are true and correct. *C. 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.*
2	*In the Matter of Schools and Libraries Universal Service Support Mechanism* et. al., CC Docket No. 02-6 *et. al.,* 25 FCC Rcd 17324, 17324, paras. 4-6. (2010).	*In order to avoid the potential waste of E-rate resources, however, the Commission concluded that reimbursements for BMIC will be paid only for actual work performed or for hours of labor actually used. The Commission required applicants and service providers to submit invoices to the Universal Service Administrative Company (USAC) for physical work actually performed, as opposed to invoicing in advance for estimated work that in some circumstances may never be performed. Moreover, the Commission stated that work invoices should be based on a reasonable hourly rate or flat fee for the type of service performed and that this process will ensure that E-rate funds will be used only when actual services are provided.* *We clarify that fixed price BMIC contracts will continue to be eligible for funding, but only for work that is actually performed under the contract. The Commission's ruling does not limit contracts eligible for funding to those that pay service providers on a time and materials basis. For example, if a service provider offers a flat fee for all maintenance and repairs necessary for the upcoming year for specific pieces of equipment, the applicant may apply for E-rate funds for estimated repairs, and funds will be released when repairs or other maintenance is performed and invoices for the actual repairs are submitted to USAC. As work is performed, invoices may be submitted to USAC on a periodic basis during the funding year. We note that USAC, as part of its regular reviews to ensure that funding is being properly disbursed, may request information from applicants or service providers in order to verify the accuracy of the amounts invoiced. We emphasize that applicants should reasonably estimate their anticipated expenses. For example, it is not reasonable to estimate an amount that would cover the cost of every piece of eligible equipment. Instead, the estimated amount must be based on verifiable or historical data, such as previous years'*

Finding	Criteria	Description
		expenses related to maintenance, the cost of previous or current maintenance contracts, and the age of the equipment at issue. If a request for funding seems excessive, especially as compared to requests from previous years, for example, USAC may request additional information from the applicant to support its estimate. We note that an applicant that grossly or knowingly submits a request for funding that is far in excess of its needs will violate the Commission's requirement that applicants make a bona fide request for funding. *We further clarify that reimbursement is permitted for some other types of BMIC without an applicant having to demonstrate that work was performed. Services such as software upgrades and patches, including bug fixes and security patches, and online and telephone-based technical assistance and tools that are typically standard fixed priced offerings will continue to be funded as BMIC if the service or equipment would not function and serve its intended purpose with the degree of reliability ordinarily provided but for these specific services. In many cases the costs and frequency of these types of services may be difficult to predict or quantify, so we clarify that reimbursement for these repairs will be permitted without demonstration of work performed, as a matter of administrative convenience. Therefore, applicants will be allowed to seek reimbursement of a one-time charge for these services at any time during the funding year. We explicitly distinguish these types of services from the physical maintenance and repair of equipment, such as the labor and parts needed to repair equipment at the school or library, which, as set forth in paragraph 107 of the Sixth Report and Order and clarified above, requires that work be performed before reimbursement can occur.*
3, 4	47 C.F.R. § 54.523 (2014).	*An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.*

Finding	Criteria	Description
3, 4	*In the Matter of Schools and Libraries Universal Service Support Mechanism* et. al., CC Docket No. 02-6 *et. al.*, 19 FCC Rcd 15808, 15816, para. 24. (2004).	*While our rules do not set forth a specific timeframe for determining when a beneficiary has failed to pay its non-discounted share, we conclude that a reasonable timeframe is 90 days after delivery of service. Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of our rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services. We believe, based on USAC's experience to date as Administrator, that a relatively short period – comparable to what occurs in commercial settings – should be established in which beneficiaries are expected to pay their non-discounted share after completion of delivery of service…Accordingly, we clarify prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates our rule that the beneficiary must pay its share.*
1, 3, 4, 8	Instructions for Completing the Universal Service for Schools and Libraries Billed Entity Applicant Reimbursement (BEAR) Form, OMB 3060-0856 (July 2013), at 5-6 (*FCC Form 472 Instructions*).	***Column (12) – Total (Undiscounted) Amount for Service per FRN.*** *The total undiscounted amount represents the total amount paid per FRN for which you are seeking reimbursement of the discount on this BEAR. This total undiscounted amount should reflect the charges for services actually received and should not be an estimated amount. The total undiscounted amount should also not be the total annual amount for the FRN, unless you are making an annual filing or are contractually obligated to pay the entire cost of services. You* ***must*** *deduct charges for any ineligible services, or for eligible services delivered for ineligible recipients or used for ineligible purposes. You should gather your customer bills and any other documentation you need to support your calculations.* ***<u>Block 3 Billed Entity Certification</u>*** *The Billed Entity must sign the Certification and declare under penalty of perjury that:* *A. The discount amounts listed in this Billed Entity Applicant Reimbursement Form represent charges for eligible services and/or equipment 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.*

Finding	Criteria	Description
		B. The discount amounts listed in this Billed Entity Applicant Reimbursement Form were already billed by the Service Provider and paid for by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities. *C. The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by the Fund Administrator pursuant to a Funding Commitment Decision Letter (FCDL).* *D. I acknowledge that I may be audited pursuant to this application and will retain for at least 10 years (or whatever retention period is required by the rules in effect at the time of this certification), after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request any and all records that I rely upon to complete this form.* *E. I certify that, in addition to the foregoing, this Billed Entity Applicant 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 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.*
3	47 C.F.R. § 54.523 (2014).	*An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.*
5, 7	*In the Matter of Schools and Libraries Universal Service Support Mechanism* et. al.,	*Educational Purpose. We find it appropriate to clarify the scope of the requirement that services be used for an educational purpose. Accordingly, we amend section 54.500 of our rules to clarify the meaning of educational purposes. Pursuant to this requirement, the Administrator has denied requests for services to be used by support staff not involved in instructional activities.*

Finding	Criteria	Description
	CC Docket No. 02-6 et. al., 18 FCC Rcd 9202, 9208, paras. 17-24. (2003).	*We reiterate our recognition that the technology needs of participants in the schools and libraries program are complex and unique to each participant. We find that, in the case of schools, activities that are integral, immediate, and proximate to the education of students, or in the case of libraries, integral, immediate, and proximate to the provision of library services to library patrons, qualify as educational purposes under this program. To guide applicants in preparing their applications and to streamline the Administrator's review of applications, we further establish a presumption that activities that occur in a library or classroom or on library or school property are integral, immediate, and proximate to the education of students or the provision of library services to library patrons.* *This clarification, however, is not intended to allow the general public to use services and facilities obtained through this support mechanism for non-educational purposes. In the Alaska Order, the Commission granted the State of Alaska a limited waiver of section 54.504(b)(2)(ii) of the Commission's rules, allowing members of rural remote communities in Alaska that lack local or toll-free dial-up access to the Internet to use excess service obtained through the support mechanism, when the services are not in use by the schools and libraries. The clarification we adopt today does not affect the terms of Alaska's waiver or allow schools or libraries outside the scope of that waiver to provide services to the general public in that manner. 21. We believe that this interpretation of educational purpose should not result in an increase in waste, fraud, or abuse. First, as the presumption set forth above demonstrates, discounts will only be awarded to support activities that have a defined nexus to education, or, in the case of libraries, to the delivery of library services to library patrons. Thus, for instance, using a school's or a library's discounted telecommunications services to support a private enterprise or a political campaign will continue to be a violation of the Act and our rules. In addition, because our rules require schools and libraries to pay a percentage of the cost of services, schools and libraries are unlikely to request services that are not economical. This is particularly true in an environment where many institutions face shrinking budgets. We therefore conclude this clarification of educational purpose should increase program efficiency without leading to waste, fraud, or abuse.* *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*

Finding	Criteria	Description
		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 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. *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.* *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*

Finding	Criteria	Description
		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 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)
1, 3, 5, 6, 7	47 C.F.R § 54.504(f)(5) (2014).	*The service provider listed on the FCC Form 473 certifies that the bills or invoices issued by this service provider to the billed entity are for equipment and services eligible for universal service support by the Administrator, and exclude any charges previously invoiced to the Administrator by the service provider.*
1, 2, 3, 4, 5, 6, 7, 8	47 C.F.R. § 54.516(b) (2014).	*Schools, libraries, and service providers shall produce such records at the request of any representative (including any auditor) appointed by a state education department, the Administrator, the FCC, or any local, state or federal agency with jurisdiction over the entity.*
5	*Schools and Libraries Universal Service Support Mechanism Eligible Services List*, CC Docket No. 02-6 *et. al.*, 28 FCC Rcd 14534 (2013) (*2014 Eligible Services List*)	*The following charges are NOT ELIGIBLE for E-rate support:* *-End User Equipment. Support is not available for end-user equipment.*
5	2015 Eligible Services List, Appendix B.	*Services and Components No Longer Eligible for Support (Effective Funding Year 2015)* *Category One (Priority One)* • *Custom calling services…* • *Directory assistance charges* • *Email…* • *Text messaging*
5	2015 Eligible Services List, at 7.	*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*

Finding	Criteria	Description
		effective option for providing broadband access for mobile devices as required in the E-rate Modernization Order. *Off-campus use, even if used for an educational purpose, is ineligible for support and must be cost allocated out of any funding request.*
6	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 (*FCC Form 473 Instructions*).	*The authorized person certifies to the following statements.* ***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.* ***Item (10)*** *- I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider are based on bills or invoices issued by the service provider 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, and exclude any charges previously invoiced to the fund administrator for which the fund administrator has not yet issued a reimbursement decision.*
1, 2	47 C.F.R. § 54.500 (2014).	***Terms and definitions.*** *Basic maintenance. A service is eligible for support as a "basic maintenance" service if, but for the maintenance at issue, the internal connection would not function and serve its intended purpose with the degree of reliability ordinarily provided in the marketplace to entities receiving such services. Basic maintenance services do not include services that maintain equipment that is not supported by E-rate or that enhance the utility of equipment beyond the transport of information, or diagnostic services in excess of those necessary to maintain the equipment's ability to transport information.*
3, 5, 7	Instructions for Completing the Schools and Libraries Universal Service Services Ordered and Certification Form (FCC Form 471), OMB 3060-	*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.* *• Complete Item 21a for Telecommunications (including Voice) and Internet Access….* *In all cases, you will be asked for the following information. Additional guidance for completing Items 21a, 21b, 21c, and 21d is provided below….*

Finding	Criteria	Description
	0806 (Oct. 2014), at 17-28 (*FCC Form 471 Instructions*).	*Recipients of Service: - For Category One 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. If the service is a Last Mile connection, the system will also prompt you to specify, on a per entity basis, the specific quantity and types of circuits that form that last mile connection.* ***C. Block 5: Discount Funding Request(s)*** *You may request discounts only for products and services delivered in the relevant funding year. Recurring services must be delivered between July 1 and June 30 of the funding year. Non-recurring services must generally be delivered between July 1 and the September 30 following the close of the funding year. Starting in Funding Year 2015, applicants seeking Category Two non-recurring services are permitted to seek support for services purchased on or after April 1, three months prior to the start of funding year on July 1. For more information, please refer to the Service Delivery section on the USAC website.* *Note that if you are seeking support on multi-year contracts,* ***you may request funding only for that portion of the contract that is delivered in the relevant funding year.*** ***Ineligible costs:*** *You may not seek support for ineligible services, entities, and uses, nor should you inflate your funding request beyond what you are able to substantiate as your likely costs during the funding year. Block 5 will guide you through deducting any ineligible costs from your total cost of services before calculating your discount request. If you have any questions about whether a service is eligible for support, please check the Eligible Services List on the USAC website or contact CSB at 1-888-203-8100.* ***…*** *Note: You must file an FCC Form 470 and seek competitive bids for non-contracted tariffed or month-to-month services each funding year, unless the services are part of a multi-year contract or are exempt from the FCC Form 470 filing requirement.* ***Item 29*** *– Check this box to certify that you and the entity(ies) you represent have complied with all program rules, including recordkeeping requirements, and that you acknowledge failure to do so may result in denial of discount*

Finding	Criteria	Description
		funding and/or cancellation of funding commitments. You also certify that there are signed contracts or legally binding agreements covering all of the services listed on this FCC Form 471 except for those services provided under non-contracted tariffed or month-to-month arrangements. You acknowledge that failure to comply with program rules could result in civil or criminal prosecution by the appropriate law enforcement authorities. ***Item 31*** *– Check this box to certify that required documents will be retained for a period of at least 10 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 and to acknowledge that you may be audited pursuant to participation in the schools and libraries program.* ***Item 32*** *– Check this box to certify that you are the person authorized to order telecommunications and other supported services on behalf of the eligible entity(ies) and are authorized to submit and certify to the accuracy of this form.* ***Item 33*** *– Check this box to acknowledge that FCC rules provide that persons who have been convicted of criminal violations or held civilly liable for certain acts arising from their participation in the schools and libraries support mechanism are subject to suspension and debarment from the program. You agree to institute reasonable measures to be informed, and will notify USAC should you be informed or become aware that you or any of the entities named on this FCC Form 471, or any person associated in any way with your entity and/or the entities named on this FCC Form 471, is convicted of a criminal violation or held civilly liable for acts arising from their participation in the schools and libraries support mechanism.*

Finding	Criteria	Description
3	2015 Eligible Services List, Appendix C, at 4.	*Internet access – Eligible Internet access may include features such as basic firewall protection, domain name service, and dynamic host configuration when these features are provided as a standard component of a vendor's Internet access service. Firewall protection may not be provided by a vendor other than the Internet access provider and may not be priced out separately.* ***Examples of items that are ineligible components of Internet access include applications****, content, e-mail, and equipment such as computers, laptops, tablets, and all other end-user devices.*
1, 2	2015 Eligible Services List, at 5-6.	*Although no longer highlighted in the ESL itself, telecommunications transmission and Internet access used for these purposes remains eligible. We also caution applicants that only the underlying transmission providing access to distance learning, video conferencing and interactive television are eligible, and that all of the components that have been ineligible in prior years remain ineligible including non-telecommunications components such as scheduling services, services for creation, maintenance and storage of content, and charges for distance learning or video conferencing utilities such as web meetings or online collaboration solutions.*
5	47 C.F.R. § 54.501(a) (2014).	*(1) Only schools meeting the statutory definition of "elementary school" or "secondary school" as defined in § 54.500 of this subpart, and not excluded under paragraphs (a)(2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.* *(2) Schools operating as for-profit businesses shall not be eligible for discounts under this subpart.* *(3) Schools with endowments exceeding $50,000,000 shall not be eligible for discounts under this subpart.*
5	School and Library Eligibility, www.usac.org (September 2015).	For purposes of universal service support, schools must meet the statutory definition of elementary and secondary schools found in the No Child Left Behind Act of 2001 (20 U.S.C. Section 7801(18) and (38)): • An elementary school is a nonprofit institutional day or residential school, including a public elementary charter school, that provides elementary education, as determined under state law.

Finding	Criteria	Description
		• A secondary school is a nonprofit institutional day or residential school, including a public secondary charter school, that provides secondary education, as determined under state law, except that such term does not include any education beyond grade 12. Schools operating as for-profit businesses or that have endowments exceeding $50 million are not eligible. In many cases, non-traditional facilities and students may be eligible. For more information regarding specific eligibility of Head Start, pre-kindergarten, juvenile justice, and adult education student populations and facilities, visit the Non-traditional Education page. An Educational Service Agency (ESA), which may operate owned or leased instructional facilities, may be eligible for Schools and Libraries Program support if it provides elementary or secondary education as defined in state law.
5	Eligibility Table for Non-Traditional Education, www.usac.org (September 2015).	The following provides information on the eligibility of Head Start, pre-kindergarten, juvenile justice, adult education, and special education students and facilities for Schools and Libraries Program support, as determined by state law. **For All States:** • Head Start services for children less than three years old are not eligible for discounts and must be cost allocated, unless otherwise noted. • Home-based Head Start programs are not eligible. • Per the federal Individuals with Disabilities Education Act (IDEA), special education students who are 3-21 years of age are eligible in all states.
8	47 C.F.R. § 54.505 (2014).	*(a) Discount mechanism. Discounts for eligible schools and libraries shall be set as a percentage discount from the pre-discount price. (b) Discount percentages. Except as provided in paragraph (f), the discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers, as defined in this subpart. The discounts available to a particular school, library, or consortium of only such entities shall be determined by indicators of poverty and high cost.* *(1) For schools and school districts, the level of poverty shall be based on the percentage of the student enrollment*

Finding	Criteria	Description
		that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism. School districts shall divide the total number of students eligible for the National School Lunch Program within the school district by the total number of students within the school district to arrive at a percentage of students eligible. *This percentage rate shall then be applied to the discount matrix to set a discount rate for the supported services purchased by all schools within the school district. Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.* *3) The Administrator shall classify schools and libraries as "urban" or "rural" according to the following designations.* *(i) The Administrator shall designate a school or library as "urban" if the school or library is located in an urbanized area as determined by the most recent rural-urban classification by the Bureau of the Census. The Administrator shall designate all other schools and libraries as "rural."* *(4) School districts, library systems, or other billed entities shall calculate discounts on supported services described in §54.502(a) that are shared by two or more of their schools, libraries, or consortia members by calculating an average discount based on the applicable district-wide discounts of all member schools and libraries. School districts, library systems, or other billed entities shall ensure that, for each year in which an eligible school or library is included for purposes of calculating the aggregate discount rate, that eligible school or library shall receive a proportionate share of the shared services for which support is sought. For schools, the discount shall be a simple average of the applicable districtwide percentage for all schools sharing a portion of the shared services. For libraries, the average discount shall be a simple average of the applicable discounts to which the libraries sharing a portion of the shared services are entitled.*

Finding	Criteria	Description

(c) Matrices. Except as provided in paragraphs (d) of this section, the Administrator shall use the following matrices to set discount rates to be applied to eligible category one and category two services purchased by eligible schools, school districts, libraries, or consortia based on the institution's level of poverty and location in an "urban" or "rural" area.

	Category one schools and libraries discount matrix		Category two schools and libraries discount matrix	
	Discount level		Discount level	
% of students eligible for national school lunch program	Urban discount	Rural discount	Urban discount	Rural discount
<1	20	25	20	25
1-19	40	50	40	50
20-34	50	60	50	60
35-49	60	70	60	70
50-74	80	80	80	80
75-100	90	90	85	85

(d) Voice Services. Discounts for category one voice services shall be reduced by 20 percentage points off applicant discount percentage rates for each funding year starting in funding year 2015, and reduced by an additional 20 percentage points off applicant discount percentage rates each subsequent funding year.

COTTON & COMPANY LLP

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Partner
Alexandria, VA

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

CHEDER MENACHEM MENDEL

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT NO. SL2017BE051

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SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

August 30, 2018

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 Cheder Menachem Mendel (Beneficiary), Billed Entity Number (BEN) 197815, 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 four 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 Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding #1: FCC Form 474 (SPI) User Guide, at 3 - Service Provider Over Invoiced SLP for Services Not Provided. The Beneficiary's Service Providers invoiced the SLP prior to rendering recurring services.	$73,637	$0	$73,637	$73,637
Finding #2: 47 C.F.R. § 54.516(a)(2) –Lack of Documentation-Service Provider Did Not Demonstrate Billed Services were Provided. The Service Provider invoiced the SLP for internet access services that it could not provide evidence that the services had been delivered to the Beneficiary at the time of	$60,750	$45,567	$15,183	$15,183

[1] The monetary effect column represents the actual dollar effect of the finding without taking into account any recovery that overlaps between findings. The total in this column may therefore be more than the amount that was committed and disbursed to the Beneficiary.

[2] The overlapping recovery column represents disbursements that have already been recommended for recovery in a previous finding and therefore cannot be recovered as part of the current finding.

[3] Amounts in the recovery column may be less than the amounts reported for individual findings because we have eliminated overlapping recovery amounts to avoid duplicative recoveries.

[4] Amounts in the commitment adjustment column may be less than the amounts reported for individual findings because we have eliminated overlapping commitment adjustments to avoid duplicative recoveries.

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
invoicing SLP as required by the Rules.				
Finding #3: FCC Form 474 (SPI) User Guide, at 3 - Beneficiary Over-Invoiced SLP for Unapproved, Ineligible Services. The Beneficiary's Service Provider invoiced the SLP for services that were not supported as managed internal broadband services (MIBS).	$20,488	$0	$20,488	$20,488
Finding #4: 47 C.F.R. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471. The Beneficiary overestimated its student enrollment and eligibility on its FY 2016 FCC Form 471.	$0	$0	$0	$0
Total Net Monetary Effect	**$154,875**	**$45,567**	**$109,308**	**$109,308**

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amounts.

USAC will request that the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC directs the Beneficiary and Service Provider to USAC's website under "Reference Area" for guidance on Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/default.aspx), Invoicing – Service Providers available at (https://www.usac.org/sl/service-providers/step05/default.aspx), Document Retention available at (https://www.usac.org/sl/tools/document-retention.aspx), and Calculating Discounts available at (https://www.usac.org/sl/applicants/step03/discounts.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
1699009824	$28,070
1699019107	$60,750
1699040946	$20,488
Total	**$109,308**

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year (FY) 2016. The Beneficiary is a private school located in Los Angeles, California that serves more than 298 students.

The following chart summarizes SLP support amounts committed and disbursed to the Beneficiary as of June 28, 2017, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Managed Internal Broadband Services	$20,488	$20,488
Internet Access	$108,875	$108,875
Voice	$20,748	$1,134
Total	**$150,111**	**$130,497**

The "amount committed" total represents five FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2016 that resulted in six Funding Request Numbers (FRNs). We tested all of the FRNs using 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 the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We performed inquiries 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.

We obtained and examined documentation to determine whether the Beneficiary complied with the requirements of the SLP Children's Internet Protection Act (CIPA).

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.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly selected a service provider that provided eligible services, 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 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 the funding in an effective manner.

E. Reimbursement Process

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

Detailed Audit Findings

<u>Finding No. 1, FCC Form 474 (SPI) User Guide, at 3 - Service Provider Over-Invoiced SLP for Services Not Provided</u>

Condition
The Beneficiary's service providers invoiced the SLP prior to rendering recurring services, as follows:

FRN 1699009824
The Beneficiary requested and received funding for recurring internet access support under FRN 16990009824. The approved FCC Form 471 specified that the Beneficiary would obtain "OC-12, Internet access service that includes a connection from any applicant site directly to the Internet Service Provider, 622.08 Mbps upload/download, Broadband Lit Fiber dynamic multi-channel" services from VC Services LLC (Service Provider) at a monthly pre-discount cost of $4,456, for a total pre-discount cost of $53,472 ($48,125 when discounted at the Beneficiary's 90 percent discount rate). The Service Provider's quote, dated January 7, 2016, included the following description of services: "Broadband Fiber-complete annual service 100 mb/s Up, 200 mb/s Down, Dedicated Multi-Channel internet access." The Beneficiary entered into a contract with the Service Provider for the requested services on February 23, 2016. The description of services stated, "Broadband Fiber-Complete Annual Service 100mb/s Up, 200 mb/s Down, Dedicated, Multi Channel Internet Access".

On August 19, 2016, the Service Provider invoiced the SLP and received a disbursement of $20,052 on November 11, 2016. The second disbursement was requested on November 27, 2016 for the remaining $28,073, when 7 months of the services had not been delivered to the Beneficiary. There was also no invoice documentation provided from the Beneficiary or Service Provider to support either of these disbursed amounts. The Service Provider invoiced the Beneficiary for $5,347 on June 16, 2016. The invoice identifies the period of performance as July 1, 2016, through June 30, 2017; however, it does not indicate that it relates to the Beneficiary's non-discounted portion of the services invoiced to the SLP. Therefore, the Service Provider invoiced SLP for 7 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. The $28,070 ($48,125 divided by 12 months, or $4,010, multiplied by 7 months) disbursed is considered not eligible for reimbursement under the SLP.

FRN 1699019107
The Beneficiary requested and received funding for internet access support under FRN 1699019107. The approved Form 471 specified that the Beneficiary would obtain "OC-3, Data connection(s) for an applicant's hub site to an Internet Service Provider or state/regional network where Internet access service is billed separately, 155.520 Mbps upload/download speed, Distance Learning Circuitry with sub circuits" services from GV Investments LLC (Service Provider) at a monthly pre-discount cost of $5,625, for a total pre-discount cost of $67,500 ($60,750 when discounted at the Beneficiary's 90 percent discount rate). The Beneficiary entered

into a contract with the Service Provider for the requested services on January 7, 2016. The description of services stated, “DST Distance eLearning Circuit Single master circuit w/100 individual sub-circuits (Multi-Channel).” The contract indicated that it was a four-year contract with a period of performance of July 1, 2016, through June 30, 2020, and was “billed annually- not a monthly contract.” The contract was not established as a monthly billing as approved on the FCC Form 471 for recurring services.

On September 26, 2016, the Service Provider invoiced the SLP for the full annual discounted total of $60,750. This invoice included a customer bill date of July 1, 2016, when 9 months of the services had not been delivered to the Beneficiary as required for invoicing SLP and as certified by the Service Provider on the FCC Form 474. On July 1, 2016, the first day of the period of performance, the Service Provider billed the Beneficiary its non-discounted share or $6,750. The bill does not identify a period of performance or indicate that it relates to the Beneficiary’s bill for the non-discounted portion of the services invoiced to the SLP. Therefore, the Service Provider invoiced SLP for 9 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. The $45,567 ($60,750 divided by 12 months, or $5,063, multiplied by 9 months) disbursed is considered not eligible for reimbursement under the SLP.

Cause
The Service Provider did not have processes in place to ensure that it invoiced the SLP for services only after it had rendered, delivered, and properly billed the services.

Effect
The monetary effect of this finding is $73,637. We also recommend that USAC recover the full amount disbursed as of the audit announcement date.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699009824 (Internet Access)	$28,070	$28,070	$28,070
1699019107 (Internet Access)	$45,567	$45,567	$45,567
Total	**$73,637**	**$73,637**	**$73,637**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Service Providers implement controls to ensure that they invoice the SLP only after they render and deliver the services.

Beneficiary Response

The auditor's contention that services were not rendered when the school was invoiced is incorrect. On July 1, 2016 the circuit represented by the FRN cited above was turned on and fully functional. The school signed an ANNUAL contract which results in a less expensive product and complies with the e-rate "cost effectiveness" requirements. Other than alleged provider invoicing issues, the school complied with all other requirements and a recommendation for a commitment adjustment is unwarranted and duly harmful.

We contend that the issue is moot since at the time of the Audit, all services for program year 2016 were fully delivered, certified and paid for.

Service Provider Response

FRN 1699009824
We have been through this process many times. We do not provide a monthly service! Our contract is annually and once we turn on the circuit - the applicant is connected for the full year. That is the nature of the service!

According to the Form 474 Guidebook Section "Before you Begin" there are Four conditions necessary before the form can be filed.
Item #2 states "The applicant <u>is receiving</u> or <u>has received</u> these services."

USAC personnel on numerous vendor training sessions has indicated that Invoicing recognizes the fact that multi-year contracts and annual payments results in less expensive costs for the same services billed on a one year contract and paid monthly.

USAC's Invoicing Department vetted the SPI request required payment proof and a signed school certification form as placed in the Audit Drop Box and determined based upon a multi-level examination of the claim that the SPI was in accordance with program rules. Any finding to the contrary would have resulted in a denial of the SPI claim.

FRN 1699019107
As per USAC personnel, during numerous Vendor & Applicant Training sessions, applicants who pay their vendors on an annual basis receive a discount, as well as applicant engaged in a multiyear contract. Under this scenario USAC personnel indicated that Invoicing will consider a usual monthly reoccurring service as an annual service to be paid by the applicant and billed to USAC as a one-time fee. This was the most cost effective mode of receiving the service a USAC requirement.

In fact, in this instance, USAC vetted the requested, requested supporting documentation and paid the invoice as per USAC personnel instructions. This was also confirmed by the head of USAC's invoicing department.

In addition we maintain that the issue is Moot, the service provider unequivocally delivered the service during FY 2016, the Beneficiary has validated that they received &

paid for the service. Any return of funds, appeals for the recovery of these funds, rebilling and repayment is a waste of every one's time.

Auditor Response

The Beneficiary and Service Provider's responses do not adequately address the issues identified during our testing of the referenced FRNs. As part of our testing, we determined that the services contracted under these FRNs constitute transmission services provided on a recurring basis throughout the period, rather than at a single point in time. Beneficiaries may enter into an annual contract if the service provider does not bill until the end of the service period; however, the service provider may not bill at the beginning of the contract year, prior to delivering the services for the period. Whether the advance payments were cost-effective or not is irrelevant because the SLP can only be invoiced after the services are performed. As a result, our position regarding the finding does not change.

Finding No. 2, 47 C.F.R. § 54.516(a)(2) –Lack of Documentation-Service Provider Did Not Demonstrate Billed Services were Provided

Condition

The Service Provider invoiced the SLP for services that it could not provide evidence that the services were delivered to the Beneficiary as approved on its FCC Form 471, for FRN 1699019107.

Specifically, we compared the services listed on the approved FCC Form 471 to the services listed on the contracts and invoices for this FRN and noted the following:

FRN	Service Provider	Product as Described on FCC Form 471	Description per Contract	Description per Service Provider Bill
1699019107	GV Investments LLC	Distance Leaning Circuitry with sub circuits Fiber – OC-3; 155.52 Mbps	DST Distance eLearning Circuit Single master circuit w/ 100 individual sub-circuits (Multi-Channel)	DTS Distance eLearning Service WAN/LAN Continues Access Full HD service-20 users

The Beneficiary received funding of $60,750 for Fiber, OC-3, Data connection(s) for an applicant's hub site to an Internet Service Provider or state/regional network where Internet access service is billed separately, 155.52 Mbps upload/download, Distance Learning Circuitry with sub-circuits under FRN 1699019107. The approved FCC Form 471 specified that monthly eligible pre-discount costs for this service were $5,625, with an annual approved cost of $67,500. On February 23, 2016, the Beneficiary entered into a contract with GV Investments, LLC (Service Provider) for "DST Distance eLearning Circuit Single master circuit w/ 100 individual sub-circuits (Multi-Channel)." The Service Provider invoiced SLP on September 26, 2016, for the full pre-discounted amount of $60,750 ($67,500 discounted at 90 percent) and was reimbursed.

The bill described the services as "DTS distance eLearning service WAN/LAN continues access full HD service-20 users." This bill does not agree or contain sufficient detail to verify that the services actually received by the Beneficiary corresponded to the contract or to the services approved on the FCC Form 471. Based on our review of the documentation and site visit it was not clear whether specifically a Fiber OC-3 circuit was supplied as requested and approved. The Service Provider confirmed that the number of users and the number of sub-circuits have no correlation, but did not provide system documentation to verify the type of circuit, or speed as approved on the FCC Form 471.

Additionally, the network diagrams requested we requested were not provided. Therefore, there is no evidence that there was a Fiber OC-3 connection with 100 sub-circuits in approved eligible locations in use during the period.

Based on the inconsistency between the FCC Form 471, contract, and invoice, and the lack of additional network documentation, the Beneficiary did not support it is receiving the services as requested and approved by SLP. Therefore, the $60,750 disbursed is considered not eligible for reimbursement under the SLP.

Cause
The Beneficiary did not have processes in place to contact SLP for assistance during the application process to ensure accurate FCC Form 471 requests. The consultant also stated that the service providers do not agree contracts to invoices; however, the Beneficiary will require them to do so in the future.

Effect
The monetary effect and recommended commitment adjustment for this finding is $60,750, or the full discounted disbursed amount for this FRN.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
(1699019107) Internet Access	$60,750	$60,750	$60,750

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary implement controls to ensure that it maintains documentation to support its network infrastructure when contract and invoice descriptions change from those on the approved Form 471.

3. The service providers implement controls to ensure that they only enter into accurate contracts with beneficiaries and that they only submit invoices to the SLP that align with the approved internet access services.

Beneficiary Response

The school certified that it received the contracted services. The auditors had sufficient opportunities to ask the vendor the details of the service (e.g. Mbps & virtual sub-circuits[channels]. The request for network diagrams and the school's lack of providing the same reflects the auditors lack of technical understating of what this means. Seeking a floor plan of where the 100 sub-circuits are located is similar to asking to see the two wires- one which provides local telephone service and one which provides long distance service. This erroneous assertion has caused the auditors to question the need for SO MANY Circuits. Recovery or reductions of Funding commitments over variations in technical tautology is unwarranted and unreasonably injurious to the school.

Note that USAC's Program Integrity Assurance department carefully vetted this request and did not come to the same conclusions at the auditors. Similarly, USAC's Invoicing department did not agree with the auditors and approved the disbursements.

Service Provider Response

As for the inconsistency is the interchangeability of the service nomenclature. The school requests a 100 Mbps eCircuit which for our company is a Tier One service that provides up to 20 concurrent meeting rooms (i.e. 20 other schools can interact with the Beneficiary during the same session.). Thus the bill will state up to 20 concurrent sessions.

In the event the school requires a greater capacity then the bandwidth would be greater and the cost of a Tier Two circuit would be greater as well.

Auditor Response

Based on the Service Provider's response, the distance learning services that it provided for the Beneficiary are not eligible for SLP support. Distance learning services are eligible if the Beneficiary uses these services to educate eligible students while they are on campus. However, the Service Provider's statement that "20 other schools can interact with the Beneficiary during the same session" indicates that the distance learning services are designed to allow the Beneficiary to share its lectures with off-campus or otherwise ineligible students. As a result, our position regarding the finding does not change.

Finding No. 3, FCC Form 474 (SPI) User Guide, at 3 - Beneficiary Over-Invoiced SLP for Unapproved, Ineligible Services

Condition

GV Investments LLC (Service Provider) invoiced for services that were not supported as eligible MIBS for FRN 1699040946. The approved FCC Form 470 described the services as "Managed Internal Broadband Services: Existing Equipment" while the Form 471 described the services as "Managed Internal Broadband Services; Managed by a third party service provider, and purchased from them or other vendors."

The approved Form 471 specified that the Beneficiary would obtain MIBS from MMS Networking (First Service Provider) to obtain the requested services; however, the First Service Provider issued a termination notice to the Beneficiary in June 2016. The Beneficiary therefore contracted with GV Investments, LLC (Second Service Provider) instead. The Beneficiary initially contracted with the Second Service Provider for a six-month trial period, then entered into a second six-month contract once the trial period expired at a monthly pre-discount cost of $2,008.67, for a total pre-discount cost of $24,104.

The second contract included a number of items under a description called Wiring and Cabling. The Beneficiary had requested separate Internal Connections FRN 1699040947, for Wiring, "Wiring to Support Deployment of Broadband", in the amount of $20,935 that had been denied. The descriptions for this FRN included: Patch Panel 96 Ports, 50 3M Wiring at $350 per unit, and 40 Jack Wall Plates at $200 each.

We examined the Second Service Provider's price quote, contract and invoices to determine whether the MIBS contract under FRN 1699040946 included services that were eligible for SLP support. We noted that:

- The contract between the Beneficiary and the Second Service Provider, was titled a "Systems Maintenance Contract" rather than as a MIBS services contract. The contract noted that it was an annual service contract for POE Switch, Redundant Power Supply, Access Points, 1 GB 1000 Base-SX, Router, Wiring & Cabling.
- We were told that the original equipment that the MIBS contract supported was purchased in 2012. The Beneficiary provided a contract dated March 14, 2012 between the Beneficiary and Intelegent Computing, Inc. to purchase equipment. The invoice provided, however, was dated October 30, 2015, three years later, for equipment purchased from Intelligent Computing, Inc. (Although there is a deviation in the spelling of the Service Provider name, the addresses on both the 2012 contract and the 2015 invoice match). Although some equipment on the contract matched to the MMS contract, it did not agree to the current GV Investment contract or what was observed on site.
- A site visit was conducted to evaluate the existence of the equipment on the second contract receiving the MIBS services. During the site visit, we visually inspected items considered wiring and cabling, including Jack Wall plates that were not included on the second contract. None of the equipment on the second contract could be produced for inspection as it was either not on site: 3 Redundant Power Supplies, 1 Enterasys C4110 Lan Controller 50 Access points (Xtreme), and 4 Enterasys 1gb 1000 Base-SX; or there was another Brand provided for inspection: 3 Enterasys 4 combo, high speed, dedicated POE Switches, 1 Sonic Pro Router.

Based on the issues noted above, we were unable to determine whether the MIBS requested in the FCC Form 471 were approved and eligible, as the Beneficiary was unable to provide evidence to support the eligibility of these services.

Cause
The Beneficiary did not have adequate processes in place to maintain the required documentation and did not have sufficient knowledge of the requirements for requesting MIBS under the FCC Form 471 approval process.

Effect
The monetary effect of this finding is $20,488 ($24,104 discounted at 85 percent), or the total amount funded and disbursed for FRN 1699040946.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699040946 (MIBS)	$20,488	$20,488	$20,488

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary only request MIBS support for eligible services and maintain supporting documentation for these services, as required by the Rules.

3. The Service Provider ensure requests are made for reimbursement from SLP for services that can be supported as eligible under the Rules.

Beneficiary Response

The contract was for MIB services and therefore did not provide a MONTHLY costs nor did it provide a cost to maintain each item. At best it was an M&C error however the contract clearly was written as an MIBS service.

The IC FRNS were approved by USAC 9/2/2015 which explains why the IC invoices were dated October 30, 2015.

The notion that the site inspection did not validate the contracts Equipment is erroneous. Note that the original contract was for Enterasys equipment was signed in 2012. The approvals were given in 2015. By that time Enterasys was acquired by Extreme Networks. Obviously, the auditors were unaware of this fact. A review of their notes and photographs of the equipment will validate that all of the equipment on the contract was present.

In fact, Internal FCC auditors, two months, prior to the USAC auditors site visit, conducted an unannounced site visit and confirmed all the equipment listed on the 2012 applications were present.

Service Provider Response

The contract was for MIB services and therefore did not provide a MONTHLY costs nor did it provide a cost to maintain each item. At best it was an M&C error however the contract clearly was written as an MIBS service.

The IC FRNS were approved by USAC 9/2/2015 which explains why the IC invoices were dated October 30, 2015.

The notion that the site inspection did not validate the contracts Equipment is erroneous. Note that the original contract was for Enterasys equipment was signed in 2012. The approvals were given in 2015. By that time Enterasys was acquired by Extreme Networks. Obviously, the auditors were unaware of this fact. A review of their notes and photographs of the equipment will validate that all of the equipment on the contract was present.

In fact, Internal FCC auditors, prior to the USAC auditors site visit, conducted an unannounced site visit and confirmed all the equipment listed on the 2012 applications were present.

Auditor Response

During our site visit we were unable to visually inspect the following items that were included in the Beneficiary's second approved MIBS contract: the 3 redundant power supplies, 1 Enterasys C4110 LAN controller, 50 access points (Xtreme), and 4 Enterasys 1gb 1000 Base-SX. In addition, the Beneficiary was unable to provide any documentation to support the services performed or expected to be performed under the MIBS contract, nor was it able to provide documentation to support the referenced FCC audit and its findings. As a result, our position regarding the finding does not change. In addition, it is important to note that although we contacted the Beneficiary and the Service Provider separately when requesting their responses to the audit report, their responses are identical.

Finding No. 4, 47 C.F.R. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471

Condition

The Beneficiary incorrectly estimated its student enrollment and eligibility on its FY 2016 FCC Form 471. Specifically, when completing the Form 471, the Beneficiary estimated its student enrollment at 318 students, 241 of whom would be eligible for free or reduced-price lunches. Based on this estimate, the Beneficiary calculated an eligibility rate of 76 percent. When we requested support for this total, the Beneficiary initially provided an Alternative Discount Certification Letter dated March 1, 2017 that indicated an enrollment of 318 students, 239 of whom would be eligible for free or reduced-price lunches. We recalculated the eligibility percentage based on this lunch statement and arrived at a 75 percent eligibility rate. The Beneficiary subsequently provided income surveys that supported enrollment of 298 students, 224 of whom would be eligible for free or reduced-price lunches. We recalculated the eligibility rate based on this additional support and determined that the appropriate eligibility percentage was still 75 percent. Based on our recalculation, the discount percentage remained unchanged for its Category 1 services at 90% for Internet Access and 50% for Voice Services. The discount percentage remained unchanged for the Category 2 services at 85% for Internal Connections – MIBS. We provide a comparison of the recalculations in the following table:

Discount Recalculation	Included on FCC Form 471	Recalculated Based on Alternative Discount Certification Letter	Recalculated Based on Income Surveys
Enrolled	318	318	298
Eligible	241	239	224
Eligibility Rate	76%	75%	75%

The erroneous student enrollment and eligibility estimate did not impact the Beneficiary's discount percentages; however, the Beneficiary's inability to accurately support the eligible student counts reported in its FCC Form 471 and its lunch statement represents a compliance finding.

We inquired with Beneficiary management and determined that the Beneficiary based its initial student enrollment estimate for the FCC Form 471 on a manual review of the student income surveys. The Beneficiary stated that the discrepancies on the surveys were the result of computational errors and parents filling out the surveys incorrectly. The Beneficiary also stated that for those surveys without the number of students listed, it had to look up the family information in the school register in calculating its enrollment estimate; however, it was unable to provide any documentation to support either its reported methodology or its student counts. In these instances where we were unable to determine the number of students for a completed survey, since a survey would not be filled out unless at least one child attended the school, we counted one child per survey when performing our recalculation.

Cause

The Beneficiary did not have sufficient controls in place to ensure that it retained documentation in compliance with the Rules.

Effect

Because the erroneous student enrollment and eligibility estimate did not impact the Beneficiary's discount percentage and eligibility rate, there is no monetary effect, recommended recovery, or commitment adjustment for this finding. However, by not retaining documentation to verify that it used accurate enrollment and eligibility estimates when completing its FCC Form 471 submission, the Beneficiary is at an increased risk of future exceptions, including exceeding its budget.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
All Sampled FRNs/All Services	$0	$0	$0

Recommendation
We recommend that:

1. The Beneficiary implement stronger document retention controls to ensure that it maintains adequate information to support both its calculations and the documentation that it submits to the SLP.

Beneficiary Response

Private schools have fluid populations and the citing of student populations will be different when looking at a snap shot at different points in time. Furthermore, the school has multiple sources of information about students and their family constitutions. USAC has amended its policy's and does allow the consolidation of multiple sources to determine eligibility. There was an extensive analysis of the surveys whose information was judiciously acquired to achieve high levels of accuracy and validity. The notion that the school was lackadaisical about this process is not supported by the facts.

Auditor Response
We understand that student populations change over the funding period; however, the Beneficiary was responsible for maintaining documentation to support the numbers reported on its FCC Form 471 application. According to USAC's documentation retention requirements and 47 C.F.R. § 54.516(a)(2), "All applicants and service providers are required to retain receipt and delivery records relating to pre-bidding, bidding, contracts, application process, invoices, provision of services, and other matters relating to the administration of universal service for a period of at least ten years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request." The Beneficiary did not respond to the retention issue detailed in this finding. As a result, our position regarding the finding does not change.

Criteria

Finding	Criteria	Description
1, 3	Schools and Libraries (E-rate) Program, FCC Form 474 (SPI) User Guide, at 3	*Purpose of FCC Form 474* *Service providers use the FCC Form 474, Service Provider Invoice (SPI) Form, to request reimbursements from the Universal Service Administrative Company (USAC) for eligible services provided at discounted prices. The service provider must provide the service and give a discounted bill to the applicant prior to submitting the FCC Form 474…* *ALL of the following conditions must occur before a service provider prepares and submits the FCC Form 474 to USAC:* *1. The service provider receives a Funding Commitment Decision Letter (FCDL) from USAC which approves eligible discounts for services; AND* *2. The eligible applicant is already receiving or has received these services; AND*

Finding	Criteria	Description
		3. The service provider has billed the applicant for its non-discount share of the services; AND *4. The service provider has received its FCC Form 486 Notification Letter; AND* *5. The service provider has filed an FCC Form 473, Service Provider Annual Certification Form, for the corresponding funding year.* *What is a Funding Commitment Decision Letter (FCDL)? USAC will issue an FCDL to each applicant that submitted the FCC Form 471 and to each service provider identified on an FCC Form 471 as the provider of the services for which discounts have been requested. The FCDL will identify the discount amount that has been approved for each Funding Request Number (FRN) as well as the Service Provider Identification Number (SPIN) for the service provider that is authorized to provide the discounted services.*
1, 2, 3, 4	47 C.F.R. § 54.516(a)(2), 2015	*Recordkeeping requirements* *(1) 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 two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.* *(2)Service providers. Service providers shall retain documents related to the 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.*
1, 2, 3, 4	47 C.F.R. § 54.516(b), (2015)	*Schools, libraries, and service providers shall produce such records at the request of any representative (including any auditor) appointed by a state education department, the*

Finding	Criteria	Description
		Administrator, the FCC, or any local, state or federal agency with jurisdiction over the entity.
4	47 C.F.R. § 54.505(b)(1), (2015)	*Discounts: Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.*

COTTON & COMPANY LLP

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

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

HEBREW ACADEMY

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT NO. SL2017BE055

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SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

August 30, 2018

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 Hebrew Academy (Beneficiary), Billed Entity Number (BEN) 105627, 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 seven 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 Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding No. 1: FCC Form 474 (SPI) User Guide-Service Provider Over Invoiced SLP for Services Not Provided. The Beneficiary's service providers invoiced the SLP for the full contract amount prior to rendering recurring services.	$84,964	$0	$84,964	$84,964
Finding No. 2: 47 C.F.R. § 54.516 (a)(2) – Lack of Documentation – Service Provider Did Not Demonstrate Invoiced Services were Provided. The Service Provider invoiced the SLP for services that it could not provide evidence that it had delivered to the Beneficiary as approved on its FCC Form 471.	$50,630	$38,500	$3,500	$12,130

[1] The monetary effect column represents the actual dollar effect of the finding without taking into account any recovery that overlaps between findings. The total in this column may therefore be more than the amount that was committed and disbursed to the Beneficiary.

[2] The overlapping recovery column represents disbursements that have already been recommended for recovery in a previous finding and therefore cannot be recovered as part of the current finding.

[3] Amounts in the recovery column may be less than the amounts reported for individual findings because we have eliminated overlapping recovery amounts to avoid duplicative recoveries.

[4] Amounts in the commitment adjustment column may be less than the amounts reported for individual findings because we have eliminated overlapping commitment adjustments to avoid duplicative recoveries.

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding No. 3: 47 C.F.R. § 54.501 – Service Provider Over Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students. The Service Provider erroneously invoiced the SLP for support provided to students that did not meet the SLP eligibility requirements.	$38,784	$35,552	$3,232	$3,232
Finding No. 4: 47 C.F.R. § 54.503(a) – Beneficiary Did Not Conduct a Fair and Open Bidding Process. The Beneficiary did not conduct a fair and open competitive bidding process as it did not properly solicit bids when cardinal changes were made to its requirements.	$21,934	$19,542	$2,392	$2,392
Finding No. 5: Second Report & Order, FCC 03-101, 18 FCC Rcd 9202, 9209-10, paras. 22-24 (2003) – Beneficiary Over-Invoiced SLP for Duplicate Services. The Beneficiary requested duplicative funding for voice services.	$3,552	$0	$0	$3,552
Finding No. 6: 47 C.F.R. § 54.501 – Beneficiary Over Invoiced SLP Support for Services Delivered to an Ineligible Locations and Ineligible Students. The Beneficiary invoiced the SLP for ineligible locations, and did not allocate costs for ineligible students.	$1,351	$0	$0	$1,351
Finding No. 7: 47 C.F.R. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471.	$0	$0	$0	$0

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
The Beneficiary incorrectly estimated its student enrollment and eligibility on its Funding Year (FY) 2016 FCC Form 471.				
Total Net Monetary Effect	**$201,215**	**$93,594**	**$94,088**	**$107,621**

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. USAC will request that the Beneficiary and Service Providers provide copies of policies and procedures implemented to address the issues identified.

In addition, USAC directs the Beneficiary and Service Providers to USAC's website under "Reference Area" for guidance on Calculating Discounts available at (https://www.usac.org/sl/applicants/step03/discounts.aspx), Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/default.aspx), Invoicing – Service Providers available at (https://www.usac.org/sl/service-providers/step05/default.aspx), Document Retention available at (https://www.usac.org/sl/tools/document-retention.aspx), Eligibility for Non-Traditional Education available at (https://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx), Competitive Bidding available at (https://www.usac.org/sl/applicants/step01/default.aspx), and Eligible Services available at (https://www.usac.org/sl/applicants/beforeyoubegin/default.aspx).

Further, USAC recommends the Beneficiary and Service Providers 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	Commitment Adjustment Amount
1699009819	$38,784	$0
1699009821	$42,000	$0
1699021611	$13,304	$0
1699114376	$8,630	$0
1699144050	$1,351	$0
1699114369	$0	$3,552
Total	**$104,069***	**$3,552**

*Recovery amounts include those recommended on disbursements made after the announcement date, but within the funding year.

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2016. The Beneficiary is a private school located in Huntington Beach, California that serves more than 350 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of June 28, 2017, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	$102,718	$94,088
Voice	$9,214	$1,970
Total	**$111,932**	**$96,058**

The "amount committed" total represents four FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2016 that resulted in seven Funding Request Numbers (FRNs). We tested all of the FRNs using 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 the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We performed inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

We obtained and examined documentation to determine whether the Beneficiary complied with the requirements of the SLP Children's Internet Protection Act (CIPA). 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.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly selected a service provider that provided eligible services, 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 474, *Service Provider Invoices* (SPIs) and FCC Form 472, *Billed Entity Applicant Reimbursement* (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.

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 the funding in an effective manner.

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

Detailed Audit Findings

<u>Finding No. 1, FCC Form 474 (SPI) User Guide - Service Provider Over-Invoiced SLP for Services Not Provided</u>

Condition
The Service Provider invoiced the SLP for services that had not been delivered to the Beneficiary as required by the Rules, for the following FRNs:

FRN 1699009819
The Beneficiary received funding for recurring telecommunications support under FRN 16990009819. The approved Form 471 specified that monthly eligible pre-discount costs for this service were $4,040, with an annual approved cost of $48,480. On February 8, 2016, the Beneficiary entered into a telecommunications services contract with VC Services, Inc. (Service

Provider) for "Broadband Fiber – Complete Annual Service – 100 mb/s Up, 200 mb/s Down; Dedicated Internet Access as MPLS." According to the contract, this was a "multi-year contract – not a monthly bill," with a period of performance from July 1, 2016, through June 30, 2020.

The Service Provider submitted one SPI on August 19, 2016 for $38,784 ($48,480, discounted at the Beneficiary's 80 percent discount rate). The SPI indicated that the customer bill date was July 1, 2016 when services had not been delivered to the Beneficiary as required for invoicing SLP and as certified by the Service Provider on the Form 474.

The Service Provider invoiced SLP for 11 months of services that it had not delivered to the Beneficiary at the time of invoicing. Therefore, $35,552 ($4,040 multiplied by 11 months, discounted at the Beneficiary's 80 percent discount rate) of the amount disbursed is considered not eligible for reimbursement under the SLP.

FRN 1699009821

The Beneficiary received funding for recurring telecommunications services under FRN 1699009821. The approved FCC Form 471 specified monthly eligible pre-discount costs for this service of $4,375 with an annual approved cost of $52,500. On January 10, 2016, the Beneficiary entered into a telecommunications contract with GV Investments LLC (Service Provider) for DST Distance eLearning Circuit Single master circuit w/100 individual sub-circuits (Multi-Channel)." According to the contract, this was an "annual contract – not a monthly payment" with a period of performance of July 1, 2016, through June 30, 2020.

The Service Provider submitted one SPI on October 7, 2016, for $42,000 ($52,500 when discounted at the Beneficiary's 80 percent discount rate). The SPI indicated that the customer bill date was July 1, 2016, when services had not been delivered to the Beneficiary as required for invoicing SLP and as certified by the Service Provider on the Form 474.

The Service Provider invoiced SLP for 11 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. Therefore, $38,500 ($4,375 multiplied by 11 months, discounted at the Beneficiary's 80 percent discount rate) of the amount disbursed is considered not eligible for reimbursement under the SLP.

FRN 1699021611

The Beneficiary received funding for recurring telecommunications services under FRN 1699021611. The approved Form 471 specified that monthly eligible pre-discount costs for this service were $1,240, with an annual approved cost of $14,880. The Form 471 also included a one-time installation cost of $1,750, for an overall approved cost of $16,630. On March 16, 2016, the Beneficiary entered into a telecommunications contract with VC Services, LLC. (Service Provider) for "Broadband Fiber – Complete Annual Service – 50 mb/s Up, 50 mb/s Down; Dedicated Internet Access at MPLS; Setup and Installation Costs." According to the contract, this was a "multi-year contract – not a monthly bill," and had a period of performance of July 1, 2016, through June 30, 2020.

The Service Provider submitted on SPI on September 8, 2016, for $13,304 ($16,630 discounted at the Beneficiary's 80 percent discount rate). This SPI indicated that the Customer Bill Date was July 1, 2016. Therefore, the Service Provider invoiced SLP for 11 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. Therefore, $10,912 ($1,240 multiplied by 11 months, discounted at the Beneficiary's 80 percent discount rate) of the amount disbursed is considered not eligible for reimbursement under the SLP.

The invoice does not identify a period of performance or indicate that it relates to the Beneficiary's non-discounted portion of the services invoiced to the SLP.

Cause
The Service Provider did not have processes in place to ensure that it invoiced USAC for services only after it had rendered, delivered, and properly billed the services.

Effect
The monetary effect of this finding is $84,964, or the total amount invoiced for the 11 months prior to delivering services. We also recommend that USAC recover this amount disbursed as of the audit announcement date.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699009819 (Internet Access)	$35,552	$35,552	$35,552
1699009821 (Internet Access)	$38,500	$38,500	$38,500
1699021611 (Internet Access)	$10,912	$10,912	$10,912
Total	**$84,964**	**$84,964**	**$84,964**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Service Providers implement controls to ensure that they invoice SLP only after they render and deliver the approved, eligible services.

Beneficiary Response

FRN 1699021611, FRN 1699009821, and FRN 1699009819
The auditor's contention that services were not rendered when the school was invoiced is incorrect. On July 1, 2016 the circuit represented by the above FRN cited above was turned on and fully functional. The school signed an ANNUAL contract which results in a less expensive product and complies with the e-rate "cost effectiveness" requirements. Other than alleged provider invoicing issues, the school complied with all other

requirements and a recommendation for a commitment adjustment is unwarranted and duly harmful.

We contend that the issue is moot since at the time of the Audit, all services for program year 2016 were fully delivered certified and paid for.

Service Provider Response

FRN 1699009819

We have been through this process many times. We do not provide a monthly service! Our contract is annually and once we turn on the circuit - the applicant is connected for the full year. That is the nature of the service!

According to the Form 474 Guidebook Section "Before you Begin" there are Four conditions necessary before the form can be filed. Item #2 states "The applicant is receiving OR has received these services."

Per USAC SLP Senior E-rate trainer on numerous vendor training sessions has indicated that Invoicing recognizes the fact that multi-year contracts and annual payments results in less expensive costs for the same services billed on a one year contract and paid monthly.

FRN 1699009821

*For FRN 1699009821 the use of the first date of service as the billing date July 1, 2016 is in accordance with the Form 474 Manual page 10 which indicates this field should be filled out with the date of the **first month of service** which is July 1, 2016. The service is an annual service and the circuit is active from July 1, 2016 until June 30, 2017 with no monthly billings.*

Concerning the inability of locating the 100 sub circuits (Multi-Channel) the auditors lacked the technical acuity to understand what this exactly means. 100 sub circuits or 100 Channels does not represent 100 specific physical circuits but rather represents an electronic designation of a service that has a cable fiber with multiple strands to deliver concurrent service to users at the same bandwidth. This designation is necessary to distinguish between single circuit services that delivery a service that is diluted by the number of concurrent users. The cost differential between these services is significant since the service provided is significantly different.

As explained to the auditors the more virtual circuits/channels available the greater the number of concurrent meeting rooms. Thus a 100 sub circuit service can host up to 20 different rooms. We contend that for our company these are inter changeable nomenclatures.

FRN 1699021611
USAC's Invoicing Department vetted the SPI request required payment proof and a signed school certification form as placed in the Audit Drop Box and determined based upon a multi-level examination of the claim that the SPI was in accordance with program rules. Any finding to the contrary would have resulted in a denial of the SPI claim.

Auditor Response
The Beneficiary and Service Provider's responses do not adequately address the issues identified during our testing of the referenced FRNs. As part of our testing, we determined that the services contracted under these FRNs constitute transmission services provided on a recurring basis throughout the period, rather than at a single point in time. Beneficiaries may enter into an annual contract if the service provider does not bill until the end of the service period; however, the service provider may not bill at the beginning of the contract year, prior to delivering the services for the period. The instructions for Block 2 in FCC Form 474 state, "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**" (emphasis added). Whether the advance payments were cost-effective is irrelevant because the Service Provider is not allowed to invoice the SLP until it has performed and provided the approved, eligible services. As a result, our position regarding the finding does not change.

Finding No. 2, 47 C.F.R. § 54. 516(a)(2)– Lack of Documentation – Service Provider Did Not Demonstrate Invoiced Services were Provided

Condition
The Service Providers invoiced SLP for services that it could not provide evidence that it had delivered to the Beneficiary as approved on its FCC Form 471. We compared the services listed on the approved FCC Form 471 to the services listed on the contracts and invoices for each FRN and noted the following:

FRN	Service Provider	Product as Described on FCC Form 471	Description per Contract	Description per Invoice
1699009821	GV Investments LLC	Video Conferencing E Learning Circuit 100 sub circuits, Fiber OC-3 155.520 Mbps Upload/Download Speed	DST Distance eLearning Circuit Single master circuit w/100 individual sub-circuits (Multi-Channel)	DTS Distance eLearning Service WAN/LAN Continues Access Full HD service - 20 users
1699114376	Time Warner Cable Information Services (California), LLC	IA Drm, Fiber OC-1, 51.480 Mbps Upload/Download Speed	10M x 10M Dedicated Internet over Fiber	Not provided

FRN 169909821
The Beneficiary received funding $42,000 for recurring telecommunications services under FRN 169909821. The approved Form 471 specified that monthly eligible pre-discount costs for this service were $4,375, with an annual approved cost of $52,500. On February 10, 2016, the Beneficiary entered into a telecommunications services contract with GV Investments LLC (Service Provider) for "DST Distance eLearning Circuit Single master circuit w/100 individual sub-circuits (Multi-Channel)."

The Service Provider submitted one SPI to the SLP on October 7, 2016 for $42,000 ($52,500 discounted at 80 percent). The SPI indicated that the customer bill date was July 1, 2016.

We noted that the Service Provider bill did not contain sufficient detail to verify that the services actually received by the Beneficiary corresponded to the services approved on the FCC Form 471. The quote, contract, and invoice did not include a technical description of the services that would enable us to validate the documents against the information contained in the Beneficiary's approved FCC Form 471, and the Service Provider was unable to provide any additional evidence during our audit that would enable us to conclude that the Service Provider provided the Video Conferencing E Learning Circuit 100 sub circuits, Fiber OC-3 155.520 Mbps Upload/Download Speed telecommunications services that had been approved by the SLP. In addition, the Service Provider invoiced USAC for eleven months of service prior to delivering the services through the year, as noted in Finding No. 1. We were unable to obtain evidence that the Service Provider provided the Video Conferencing E Learning Circuit 100 sub circuits, Fiber OC-3 155.520 Mbps Upload/Download Speed on a monthly basis throughout the funding year, as required, and requested on the approved FCC Form 471 for recurring service. Therefore, the Service Provider invoiced SLP for services that it did not support had been delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. Therefore, the $42,000 disbursed is considered not eligible for reimbursement under the SLP.

We inquired with the Beneficiary and determined that it had requested a separate fiber to ensure that the video conferencing had sufficient bandwidth to provide a clear picture and to avoid affecting the regular wireless internet access. During our site visit, we saw a separate fiber connection in the server room but were unable to verify that it had the 100 sub circuits or speed that was requested and approved by SLP. We also learned that the 20 users description was referring to how many people or classrooms could sign into the service simultaneously. It was not clear whether the persons or classrooms referred to would be on-campus eligible students as we were not shown 20 eligible classrooms or computers with distance learning capabilities.

FRN 1699114376
The Beneficiary received funding of $8,630 for recurring telecommunications services under FRN 1699114376. The approved FCC Form 471 specified that monthly eligible pre-discount costs for this service were $899, with an annual approved cost of $10,788. On March 24, 2011, the Beneficiary entered into a telecommunications services contract with Time Warner Cable Information Services (California), LLC (Service Provider). The services are now on a month-to-month basis, but the Beneficiary was unable to provide documentation supporting this change.

At the time of the announcement, the Beneficiary had not invoiced SLP for FRN 1699114376. The Service Provider then submitted two SPIs to the SLP. The first, dated May 15, 2017, was not approved. The second, dated July 24, 2017 was approved for $8,630 (10,788 discounted at 80 percent). In addition, we noted that the Service Provider did not provide bills to support the SPIs. Therefore, the Service Provider invoiced SLP for services that it did not support had been delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. Therefore, the $8,630 disbursed is considered not eligible for reimbursement under the SLP.

We inquired with the Beneficiary, which informed us that the consultant preparing the Form 471 had mislabeled the service as "IA Drm," indicating that the service related to the dormitory, but that the service actually related to the school's administrative buildings. Therefore, we requested network diagrams that were not provided. Further, during the site visit, we were not able to visually inspect a Fiber OC-1 cable from the Service Provider that would serve the Administrative Building. There is no evidence that both Fiber connections were in use for the approved eligible purposes during the period. Based on the lack of consistent proper documentation to support its rendering of approved services for both FRNs, the Service Provider did not adequately support disbursements requested.

The Beneficiary's consultant stated that the Form 471s did not agree to the contracts and invoices because there are only limited dropdown selections available for the Beneficiary to choose from when submitting the FCC Form 471, so there was not always selections to match the information included in the contracts and invoices. However, there were more accurate selections. The consultant also stated that the service providers do not agree contracts to invoices; however, the Beneficiary will require them to do so in the future.

Cause

The Beneficiary did not have processes in place to ensure that USAC was invoiced for services only after services were rendered, delivered, and properly billed by its Service Providers. Beneficiary did not have processes in place to contact SLP for assistance during the application process to ensure accurate FCC Form 471 requests.

Effect

The monetary effect and recommended recovery for this finding is $50,630, or the total amount funded and disbursed for the FRNs. The Beneficiary had not invoiced SLP for FRN 1699114376 until after the announcement date, and therefore, there were no disbursement within the audit period. However, the full amount was disbursed during the funding year.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699009821 (Internet Access)	$42,000	$42,000	$42,000
1699114376 (Internet Access)	$8,630	$0	$8,630
Total	**$50,630**	**$42,000**	**$50,630**

Recommendation
We recommend that:

1. USAC seek recovery of the amount identified above for FRN 1699009821 and reduce the commitment accordingly.

2. USAC seek recovery of any related disbursements made under FRN 1699114376 since the audit announcement date and reduce the commitment accordingly.

3. The Beneficiary implement controls to ensure that it invoices SLP only after services have been rendered and delivered.

4. The Service Providers implement controls to ensure that it invoices SLP only after approved, eligible services have been rendered and delivered.

Beneficiary Response

FRN 1699114376
The auditors contend that the applicant's assertion that it was unable to determine the correct bandwidth is erroneous is unfounded,– the Form 471 drop down speed selections DO NOT indicate the Mbps in a numeric form (i.e. – 50 Mbps, 100 Mbps etc.) instead it uses Telecommunications Jargon such a OC-1, OC-3 etc.

As far as the auditor's inability to determine if the service was provided. The auditors were given a live demonstration that the school had the necessary resources and participated in a one-hour video conferencing session while being in California conversing with the school's consultant in New York.

The school was invoiced for the service, paid for the service and has indicated that it received the service. The auditors have not presented any evidence to the contrary.

FRN 1699114376
The auditors contend that they were unable to locate documentation of the change from a contract acquired in 2011 to a Month to Month. In fact, it is a well know industry practice throughout the Telecom business that at the expiration of a contract, unless notified in writing, the contract converts to a Month to Month basis.

The auditors contend that the applicant's assertion that it was unable to determine the correct bandwidth is erroneous is unfounded, – the Form 471 drop down speed selections

DO NOT indicate the Mbps in a numeric form (i.e. – 50 Mbps, 100 Mbps etc.) instead it uses Telecommunications Jargon such a OC-1, OC-3 etc.

There are eight buildings on campus with more than one administrative office the auditors obviously did not view the correct administrative facility.

Time Warner has been providing this service since 2011. The school can clearly demonstrate that it has paid for these services each month throughout the FY2016.

Service Provider Response

For FRN 1699009821 the use of the first date of service as the billing date July 1, 2016 is in accordance with the Form 474 Manual page 10 which indicates this field should be filled out with the date of the ***first month of service*** *which is July 1, 2016. The service is an annual service and the circuit is active from July 1, 2016 until June 30, 2017 with no monthly billings.*

Concerning the inability of locating the 100 sub circuits (Multi-Channel) the auditors lacked the technical acuity to understand what this exactly means. 100 sub circuits or 100 Channels does not represent 100 specific physical circuits but rather represents an electronic designation of a service that has a cable fiber with multiple strands to deliver concurrent service to users at the same bandwidth. This designation is necessary to distinguish between single circuit services that delivery a service that is diluted by the number of concurrent users. The cost differential between these services is significant since the service provided is significantly different.

As explained to the auditors the more virtual circuits/channels available the greater the number of concurrent meeting rooms. Thus a 100 sub circuit service can host up to 20 different rooms. We contend that for our company these are inter changeable nomenclatures.

Auditor Response

FRN 1699114376

Based on the available drop-down options in the EPC system, the Beneficiary should have requested “Ethernet services”; selecting this option then allows the user to enter any internet capacity. The EPC system does provide the option to select the services that the Beneficiary ultimately ordered. Additionally, the SLP offers support to assist beneficiaries in submitting accurate requests.

The Beneficiary accompanied us during the site visit, and they specifically led us to the buildings with the technology under audit. We inspected the correct administrative building; however, we were unable to locate the OC-3 circuit approved for that location.

The Beneficiary did not provide any invoices for the Time Warner services to enable us to determine the capacity received and verify whether the capacity received matched the capacity that was approved in the Form 471.

FRN 169909821
The Beneficiary did display its video conferencing capability during our site visit; however, the Service Provider and the contract both state that the approved 100 subcircuit Fiber connection can provide video conferencing capability for up to 20 classrooms, and the Beneficiary was unable to demonstrate that it had 20 potential eligible classrooms that were configured to make use of the services ordered. This school has approximately 200 students and is therefore unlikely to require video conferencing capability for 20 eligible classrooms.

Our position regarding the finding does not change.

Finding No. 3, 47 C.F.R. § 54.501 – Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Locations and for Ineligible Students

Condition
The Service Provider invoiced the SLP for ineligible locations, and did not allocate costs for ineligible students. The Beneficiary requested and received funding for internet access services under FRN 169909819 for its Nursery/Early Childhood Education (Nursery ECE). The Beneficiary contracted with VC Services, LLC. (Service Provider) to obtain "Broadband Fiber – Complete Annual Service – 50 mb/s Up, 50 mb/s Down; Dedicated Internet Access at MPLS; Setup and Installation Costs."

We reviewed the school floor plan and noted that the Beneficiary had ineligible classroom locations, such as infant and child-care classrooms in its Nursery ECE. The Beneficiary told us during the site visit that the Nursery ECE program serves, in addition to the eligible pre-k students, approximately 30-50 students under the age of 3, whom are therefore not considered eligible for the E-Rate program. Based on our review of the SPIs, Service Provider bills and the funding requested, we determined that the Service Provider did not perform any allocation to remove costs related to ineligible students from the Service Provider bills before invoicing the SLP. We therefore concluded that the Beneficiary over-invoiced for ineligible services.

The Service Provider submitted one SPI on August 19, 2016 for $38,784 ($48,480, discounted at the Beneficiary's 80 percent discount rate). The SPI indicated that the customer bill date was July 1, 2016. As there was not sufficient detailed information retained of the student population for the audit period in order to determine the exact number of ineligible students for allocation calculation purposes, the full disbursement of $38,784 is considered ineligible.

Cause
The Service Provider did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices for services approved by the SLP.

Effect
The monetary effect and recommended commitment adjustment is $38,784, or the full discounted amount for FRN 1699009819.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699009819 (Internet Access)	$38,784	$38,784	$38,784

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Service Provider implement stronger review controls to ensure that SPIs only include the cost of eligible and approved services before submitting the SPIs to the SLP.

Beneficiary Response

The auditor's contentions are unfounded and erroneous. There is a pre-school building which house approximately 70 students. Of this number approximately no more than 15 students are under the age of three. In addition, none of the classrooms are wired for nor have the capability of accessing the schools Broadband network. Only the administrative offices located in that building utilize this service.

Auditor Response
During fieldwork, we made repeated requests for documentation to support the age of the students. We determined that the Beneficiary considered students who turned three during the school year to be eligible, which may account for the discrepancy between the number of students under the age of three that the Beneficiary reported during fieldwork and the number that the Beneficiary reported in its response to our finding. However, the SLP program states, "Head Start services for children less than three years old are not eligible for discounts and must be cost allocated." As such, students must be at least three years old in any month in which the Beneficiary includes them in its eligible student count. Regardless, we are unable to rely on approximate numbers and oral statements without supporting documentation. In addition, although the Beneficiary did not provide the network diagram that we requested, we concluded that, even if students did not use laptops on a regular basis, the teachers would need to use the network for planning, preparing, and printing course material; corresponding with parents; and performing other educational duties. As such, the Beneficiary should have made some allocation for this usage, as required by the Rules. Because the Beneficiary did not make any allocations for this usage and did not provide any support for the number of children under the age of three, our position regarding the finding does not change.

Finding No. 4, 47 C.F.R. § 54.503(a) – Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process

Condition
The Beneficiary did not conduct a fair and open competitive bidding process as it did not properly solicit bids when cardinal changes were made to its requirements for the following FRNs:

FRN 1699021611
The Beneficiary did not post a new FCC Form 470, No. 160015573 when it reduced its requirements for fiber capacity under FRN 1699021611, Internet Service for its dormitory. The original Form 470 stated, "Quantities are minimums will consider greater quantities and capacities." Based on this statement, the Beneficiary would have been allowed to increase its capacity requirements without revising the Form 470; however, the statement did not allow for a reduction in capacity. The modification to capacity is considered a cardinal change; as such, the Beneficiary should have notified SLP and potential bidders by posting a new FCC Form 470 to solicit new bids for its newly revised requirements upon determining that it did not require the full capacity specified in the original FCC Form 470 submission. Revising the FCC Form 470 was particularly important because the Beneficiary's primary mechanism for competition was the FCC Form 470 posting as no separate request for proposal was posted. By not posting a revised FCC Form 470 detailing the lowered fiber capacity thresholds, the Beneficiary may have prevented eligible service providers from bidding.

Specifically, the Beneficiary completed a FCC Form 470 for Category 1 services that outlined its requirements for Lit Fiber Service, 100-200 Mbps under FRN 1699021611. The FCC Form 470 stated, "Quantities are minimums will consider greater quantities and capacities." The SLP approved the Beneficiary's related Form 471 for Broadband Multi Channel, Fiber OC-1, 51.480 Mbps Upload/Download Speed at a monthly pre-discount cost of $1,240, for a total annual pre-discount cost of $14,880. The FCC Form 471 also included a one-time installation cost of $1,750, for an overall pre-discount cost of $16,630 ($13,304 when discounted at the Beneficiary's 80 percent discount rate). The Beneficiary contracted with VC Services LLC to obtain the required services; however, we reviewed the contract and noted that the description of services stated, "Broadband Fiber – Complete Annual Service 50 mb/s Up, 50 mb/s Down; Dedicated Internet Access at MPLS; Setup and Installation Costs." The contracted 50 mb/s upload/download speed was less than the speed requested on the FCC Form 470, indicating that the Beneficiary did not accept bids in accordance with requested service.

FRN 1699114376
The Beneficiary did not post a new FCC Form 470, No. 160015573 when it reduced its requirements for fiber capacity under FRN 1699114376, Internet Service for its administrative building. The original FCC Form 470 stated, "Quantities are minimums will consider greater quantities and capacities." Based on this statement, the Beneficiary would have been allowed to increase its capacity requirements without revising the Form 470; however, the statement did not allow for a reduction in capacity. USAC views an unauthorized change in capacity as a cardinal change; as such, the Beneficiary should have notified the SLP and potential bidders by posting a

new FCC Form 470 to solicit new bids for its newly revised requirements upon determining that it did not require the full capacity specified in the original Form 470 submission. Revising the Form 470 was particularly important because the Beneficiary's primary mechanism for competition was the Form 470 posting as no separate request for proposal was posted. By not posting a revised Form 470 detailing the lowered fiber capacity thresholds, the Beneficiary may have prevented eligible service providers from bidding.

Specifically, the Beneficiary completed a Form 470 outlining its requirements for Internet Access (IA) under FRN 1699114376. The SLP approved the Beneficiary's related FCC Form 471 for "IA Drm, Fiber OC-1, 51.480 Mbps Upload/Download" speed at a monthly pre-discount cost of $899, for a total annual pre-discount cost of $10,788 ($8,630 when discounted at the Beneficiary's 80 percent discount rate). In 2011, the Beneficiary contracted with Time Warner Cable Information Services (California), LLC to obtain the required services; however, we reviewed the contract and noted that the description of services stated, "10M x 10M Dedicated Internet over Fiber," which does not match the description of services included on the FCC Form 470, indicating that the Beneficiary did not accept bids in accordance with requested services.

We summarized the differences observed between the documents as follows:

FRN	Product as Described on FCC Form 470	Product as Described on FCC Form 471	Description per Contract
1699021611	Lit Fiber Service; 100-200 Mbps; Category 1 narrative in Form 470 indicated: "Quantities are minimums will consider greater quantities and capacities."	Broadband Multi Channel, Fiber OC-1, 51.480 Mbps Upload/Download Speed	Broadband Fiber - Complete Annual Service 50 mb/s Up, 50 mb/s Down; Dedicated Internet Access at MPLS; Setup and Installation Costs
1699114376	Lit Fiber Service; 100-200 Mbps; Category 1 narrative in Form 470 indicated: "Quantities are minimums will consider greater quantities and capacities."	IA Drm, Fiber OC-1, 51.480 Mbps Upload/Download Speed	10M x 10M Dedicated Internet over Fiber

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the competitive bidding process and the circumstances under which beneficiaries must submit revised FCC Form 470s. The Beneficiary also did not have sufficient processes in place to ensure that it resubmitted the FCC Form 470 after making cardinal changes to its requirements, thereby enabling service providers to accurately bid on services.

Effect

The monetary effect and recommended commitment adjustment for this finding is $21,934, or the full post-discount amount for each FRN. The Beneficiary had not invoiced SLP for FRN 1699114376 until after the announcement date, and therefore, there were no disbursement within the audit period. However, the full amount was disbursed during the funding year.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699021611 (Internet Access)	$13,304	$13,304	$13,304
1699114376 (Internet Access)	$8,630	$0	$8,630
Total	**$21,934**	**$13,304**	**$21,934**

Recommendation

We recommend that:

1. USAC seek recovery of the amounts identified above for FRN1699021611 and reduce the commitment accordingly.

2. USAC seek recovery of the amounts paid after June 28, 2017 for FRN 1699114376, as identified above in the monetary effect and commitment adjustment.

3. The Beneficiary implement stronger controls to ensure that it uses a competitive bidding process in accordance with the Rules.

Beneficiary Response

FRN 1699021611 and FRN 1699114376

We contend that throughout USAC training sessions an applicant cannot accept services that were beyond the maximums stated in the Form 470. Accepting quantities less than the minimums were never an issue.

In addition of USAC statutory section listed at the end of this report concerning Cardinal Changes states, "*USAC Schools and Libraries News Brief, July 17, 2015 - if you are making a cardinal change to what you have already posted – such as* ***adding additional speeds****, products or services, or locations or entities – you must post a new FCC Form 470."*

In addition we submit that the difference between 50 & 100 Mbps cable circuit is not a cardinal change since the cost differential from a wide range of experience for this type of service is marginal.

Auditor Response
As indicated in the condition of the finding, the Beneficiary had added specific language to its FCC Form 470 posting to state “quantities are minimums.” Therefore, the Beneficiary violated competitive bidding requirements by not posting a new Form 470 after making cardinal changes. If potential bidders had been aware that the Beneficiary would accept bids for speeds below 100 Mbps, it is possible that the Beneficiary would have received additional proposals from bidders that were not able to provide the capacity specified in the original Form 470 submission but that were able to provide the revised capacity. As a result, our position regarding the finding does not change.

Finding No. 5, Second Report & Order, FCC 03-101, 18 FCC Rcd 9202, 9209-10, paras. 22-24 – Beneficiary Requested Duplicate Services

Condition
The Beneficiary requested duplicative funding for voice services. Specifically, the Beneficiary requested all of its internet access and telecommunications services under one FCC Form 470, No. 160015573. The form’s description of needs or services requested includes “Voice Service.” The form indicated that the Beneficiary required this service for two entities: its school campus and its off-site dormitory. We examined the Beneficiary’s SLP funding requests and service provider contracts and noted that the Beneficiary submitted multiple FCC Form 471 support requests that provide the same functionality to the same population, from the same FCC Form 470 service line item, as outlined below.

The Beneficiary requested and received funding for VoIP under FRN 1699144050. The SLP approved the Beneficiary’s FCC Form 471 at a pre-discount total of $3,378. The Beneficiary then contracted with Voice Carrier LLC to obtain the requested voice services. The Beneficiary has received and paid invoices from Voice Carrier for the VoIP services; however, the SLP has not disbursed any payments under this FRN.

In addition, the Beneficiary requested and was approved to receive funding for VoIP under FRN 1699114369. The SLP approved the Beneficiary’s FCC Form 471 at a pre-discount total of $8,880. The Beneficiary entered into a renewable contract with Time Warner Cable to obtain the requested voice services; however, the Beneficiary did not receive or pay any invoices from Time Warner Cable for these services, and the SLP did not disburse any payments to Time Warner Cable under this FRN for Funding Year (FY) 2016 as of the audit announcement date.

We inquired with the Beneficiary, which stated that it was no longer obtaining VoIP services from Time Warner Cable. However, the Beneficiary did not file a Form 500 to cancel the VoIP services requested under FRN 1699114369 during the funding year, and filed an invoicing extension through February 26, 2018; as a result, the FRN commitments are still available for disbursement and therefore is considered a duplicate service request.

Cause
The Beneficiary was unable to adequately explain why it requested multiple versions of the same services, aside from noting that it was no longer obtaining VoIP services from Time Warner

Cable. As such, the Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for duplicative services.

Effect
Based on our inquiries with the Beneficiary, Voice Carrier LLC is the primary VoIP provider. As such, the monetary effect and commitment adjustment for the finding is $3,552 for the full amount of the funding requested under FRN 1699114369 for the Time Warner Cable services ($8,800 multiplied by the Beneficiary's 40 percent discount rate). We do not recommend recovery for this finding, as the SLP did not disburse any funds under FRN 1699114369 as of the audit announcement date.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699114369 (Voice Services)	$3,552	$0	$3,552

Recommendation
We recommend that:

1. USAC reduce the commitment as identified above and recover any disbursements made on FRN 1699114369.

2. The Beneficiary implement controls to ensure that future SLP funding requests are accurate and non-duplicative.

Beneficiary Response
The form 500 was filed.

Auditor Response
The Beneficiary had not filed the FCC Form 500 prior to the start of the audit. We raised this issue at the beginning of the audit, or June 28, 2017, and the Beneficiary did not file the form during our fieldwork period, which continued through February 7, 2018. On May 2, 2018, we verified that the Beneficiary had submitted the FCC Form 500 and that the commitment for FRN 1699114369 is now $0. As a result, no additional commitment adjustment will be necessary; however, the finding is still relevant.

Finding No. 6, 47 C.F.R. § 54.501 – Beneficiary Over Invoiced SLP Support for Services Delivered to an Ineligible Locations and Ineligible Students

Condition
The Beneficiary invoiced the SLP for ineligible locations, and did not allocate costs for ineligible students. The Beneficiary requested and received funding for voice services under FRN

1699144050. The Beneficiary contracted with Voice Carrier LLC (Service Provider) to obtain Voice over Internet Protocol (VoIP) service.

As of the audit announcement date, the Beneficiary had not invoiced SLP for FRN 1699144050. The Beneficiary submitted one BEAR dated December 28, 2017 for $1,351. The Beneficiary did not provide documentation to support the eligibility of the lines' locations and did not remove ineligible services or services for ineligible students from the Service Provider bills before requesting reimbursement. We therefore concluded that the Beneficiary over-invoiced for ineligible services.

We reviewed the school floor plan and noted that the Beneficiary had ineligible classroom locations, such as infant and child-care classrooms. The Beneficiary told us during the site visit that the Nursery/Early Childhood Education (Nursery ECE) program serves, in addition to the eligible pre-k students, approximately 30-50 students under the age of 3, whom are therefore not considered eligible for the E-Rate program. The Service Provider bills did not specify phone numbers or locations of lines provided. Based on our review, we determined that the Beneficiary did not perform any allocation to remove costs related to ineligible students from the Service Provider bills before invoicing the SLP.

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices for services approved by the SLP.

Effect
The monetary effect for this finding is $1,351. The Beneficiary had not invoiced SLP for FRN 1699144050 until after the announcement date, and therefore, there were no disbursements within the audit period. However, the full amount was disbursed after the announcement date, within the funding year, as the Beneficiary had filed for an extension until February 28, 2018.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699144050 (Voice Services)	$1,351	$0	$1,351

Recommendation
We recommend that:

1. USAC reduce the commitment as identified above and recover any disbursements made on FRN 1699144050.

2. The Beneficiary implement stronger review controls to ensure that BEARs only include the cost of eligible and approved services before submitting the BEARs to the SLP.

Beneficiary Response

The auditor's contentions are unfounded and erroneous. There is a pre-school building which house approximately 70 students. Of this number approximately no more than 15 students are under the age of three. In addition, none of the classrooms are wired for nor have the capability of accessing the schools Voice system. Only the school wide administrative offices located in that building utilize this service.

Auditor Response

During fieldwork, we made repeated requests for documentation to support the age of the students. We determined that the Beneficiary considered students who turned three during the school year to be eligible, which may account for the discrepancy between the number of students under the age of three that the Beneficiary reported during fieldwork and the number that the Beneficiary reported in its response to our finding. However, the SLP program states, "Head Start services for children less than three years old are not eligible for discounts and must be cost allocated." As such, students must be at least three years old in any month in which the Beneficiary includes them in its eligible student count. Regardless, we are unable to rely on approximate numbers and oral statements without supporting documentation. In addition, although the Beneficiary's statement indicates that none of the classrooms have voice lines, there are at least two photos on its school website that show preschool classrooms with telephones. The Beneficiary also did not provide us with any floor plans or detailed information to support the specific locations of the eight VoIP lines. Because the Beneficiary did not make any allocations for ineligible usage and did not provide any support for its claims regarding the number of children under the age of three or the location of its VoIP lines, our position regarding the finding does not change.

Finding No. 7, 47 C.F.R. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471

Condition

The Beneficiary incorrectly estimated its student enrollment and eligibility on its FY 2016 FCC Form 471. Specifically, when completing its Form 471, the Beneficiary estimated its student enrollment at 215 students, 112 of whom would be eligible for free or reduced-price lunches. Based on this estimate, the Beneficiary calculated an eligibility rate of 52 percent. When we requested support for this total, the Beneficiary initially provided a lunch statement dated July 18, 2017 that indicated an enrollment of 213 students, 116 of whom would be eligible for free or reduced-price lunches. We recalculated the percentage based on this lunch statement and arrived at a 54 percent eligibility rate. The Beneficiary subsequently provided income surveys that supported enrollment of 210 students, 116 of whom would be eligible for free or reduced-price lunches. We noted several discrepancies in our analysis of the income surveys, such as the inclusion of Nursery/ECE students in the student count and the inclusion of students based on surveys that had redacted grade information or that were not legibly scanned. We recalculated the percentage based on the income surveys and calculated an eligibility rate of 55 percent. Based on our recalculation, the discount percentage remained unchanged for its Category 1 services at 80% for Internet Access and 40% for Voice Services. We provide a comparison of the recalculations in the following table:

Discount Recalculation	Included on FCC Form 471	Recalculated Based on Lunch Statement	Recalculated Based on Income Surveys
Enrolled	215	213	210
Eligible	112	116	116
Eligibility Rate	52%	54%	55%

The erroneous student enrollment and eligibility estimate did not impact the Beneficiary's discount percentage percentages; however, the Beneficiary's inability to accurately support the eligible student counts reported in its FCC Form 471 and its lunch statement represents a compliance finding.

Cause

The Beneficiary did not have sufficient controls in place to ensure that it retained documentation in compliance with the Rules. We discussed the supporting documentation with Beneficiary management and determined that the Beneficiary based its initial student enrollment estimate for the FCC Form 471 on the student surveys that were available at the time of the filing, in early 2016. The Beneficiary also stated that it had manually excluded preschool students that were younger than the pre-kindergarten class, and that the discrepancies were due to human error.

Effect

Because the erroneous student enrollment and eligibility estimate did not materially impact the Beneficiary's discount percentage, there is no monetary effect, recommended recovery, or commitment adjustment for this finding. However, by not retaining documentation to verify that it used accurate enrollment and eligibility estimates when completing its Form 471 submission, the Beneficiary is at an increased risk of future exceptions, including exceeding its budget.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
All Sampled FRNs/All Services	$0	$0	$0

Recommendation

We recommend that the Beneficiary implement stronger document retention controls to ensure that it maintains adequate information to support both its calculations and the documentation that it submits to the SLP.

Beneficiary Response

> *Private schools have fluid populations and the citing of student populations will be different when looking at a snap shot at different points in time.*

Auditor Response

We understand that student populations change over the funding period; however, the Beneficiary was responsible for maintaining documentation to support the numbers reported on its FCC Form 471 application. According to USAC's documentation retention requirements and 47 C.F.R. § 54.516(a)(2), "All applicants and service providers are required to retain receipt and delivery records relating to pre-bidding, bidding, contracts, application process, invoices, provision of services, and other matters relating to the administration of universal service for a period of at least ten years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request." The Beneficiary did not respond to the retention issue detailed in this finding. As a result, our position regarding the finding does not change.

Criteria

Finding	Criteria	Description
1	Schools and Libraries (E-rate) Program, FCC Form 474 Service Provider Invoice (SPI) User Guide, at 3, 12.	***Purpose of FCC Form 474*** *Service providers use the FCC Form 474, Service Provider Invoice (SPI) Form, to request reimbursements from the Universal Service Administrative Company (USAC) for eligible services provided at discounted prices. The service provider must provide the service and give a discounted bill to the applicant prior to submitting the FCC Form 474.* *ALL of the following conditions must occur before a service provider prepares and submits the FCC Form 474 to USAC:* *1. The service provider receives a Funding Commitment Decision Letter (FCDL) from USAC which approves eligible discounts for services; AND* *2. The eligible applicant is already receiving or has received these services; AND* *3. The service provider has billed the applicant for its non-discount share of the services; AND* *4. The service provider has received its FCC Form 486 Notification Letter; AND* *5. The service provider has filed an FCC Form 473, Service Provider Annual Certification Form, for the corresponding funding year.* ***Block 3: Service Provider Certifications and Signature*** *I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to submit this Service Provider Invoice Form (FCC Form 474) and acknowledge to the best of my knowledge, information and belief, as follows:* *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*

Finding	Criteria	Description
		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. *B. I certify that the certifications made on the Service Provider Annual Certification Form (FCC Form 473) by this Service Provider are true and correct.* *C. 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.*
2, 6, 7	47 C.F.R. § 54.516(a) (2015).	***Recordkeeping requirements*** *(1) …[S]chools 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 two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.* ***(2)Service providers.*** *Service providers shall retain documents related to the 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.*
3, 6	47 C.F.R. § 54.501 (2015).	**(1)** *Only schools meeting the statutory definition of "elementary school" or "secondary school" as defined in §54.500 of this subpart, and not excluded under paragraphs (a)(2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.*
3	Eligibility Table for Non-Traditional Education, https://www.usac.	*The following provides information on the eligibility of Head Start, pre-kindergarten, juvenile justice, adult education, and special education students and facilities for Schools and Libraries Program support, as determined by state law.* ***For All States:***

Finding	Criteria	Description
	org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx (Sept. 2015).	• *Head Start services for children less than three years old are not eligible for discounts and must be cost allocated, unless otherwise noted.*
4	47 C.F.R. § 54.503(a) (2015).	***§ 54.503 Competitive bidding requirements.*** ***(a)*** *All entities participating in the schools and libraries universal service support program must conduct a fair and open competitive bidding process, consistent with all requirements set forth in this subpart.* ***Note to paragraph** (A)**:*** *The following is an illustrative list of activities or behaviors that would not result in a fair and open competitive bidding process: the applicant for supported services has a relationship with a service provider that would unfairly influence the outcome of a competition or would furnish the service provider with inside information; someone other than the applicant or an authorized representative of the applicant prepares, signs, and submits the FCC Form 470 and certification; a service provider representative is listed as the FCC Form 470 contact person and allows that service provider to participate in the competitive bidding process; the service provider prepares the applicant's FCC Form 470 or participates in the bid evaluation or vendor selection process in any way; the applicant turns over to a service provider the responsibility for ensuring a fair and open competitive bidding process; an applicant employee with a role in the service provider selection process also has an ownership interest in the service provider seeking to participate in the competitive bidding process; and the applicant's FCC Form 470 does not describe the supported services with sufficient specificity to enable interested service providers to submit responsive bids.* ***(b)Competitive bid requirements.*** *Except as provided in § 54.511(c), an eligible school, library, or consortium that includes an eligible school or library shall seek competitive bids, pursuant to the requirements established in this subpart, for all services eligible for support under § 54.502. These competitive bid requirements apply in addition to state and local competitive bid requirements and are not intended to preempt such state or local requirements.* ***(c)Posting of FCC Form 470.***

Finding	Criteria	Description
		(1) *An eligible school, library, or consortium that includes an eligible school or library seeking bids for eligible services under this subpart shall submit a completed FCC Form 470 to the Administrator to initiate the competitive bidding process. The FCC Form 470 and any request for proposal cited in the FCC Form 470 shall include, at a minimum, the following information:* ***(i)*** *A list of specified services for which the school, library, or consortium requests bids;* ***(ii)*** *Sufficient information to enable bidders to reasonably determine the needs of the applicant;*
4	USAC Schools and Libraries News Brief, July 17, 2015.	*After you have certified an FCC Form 470 on the USAC website, you can add more RFP documents but you cannot remove any that were already attached. Note, however, that if you are making a cardinal change to what you have already posted – such as adding additional speeds, products or services, or locations or entities – you must post a new FCC Form 470.*
5	Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, 18 FCC Rcd 9202, 9209-10, paras. 22-24 (2003) (*Second Report & Order*).	*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 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.* *23. 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.*

Finding	Criteria	Description
		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. *24. 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 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)*
7	47 C.F.R. §54.505 (2015)	*Discounts:* *Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.*

COTTON & COMPANY LLP

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

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

COLLIER HIGH SCHOOL

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT NO. SL2017BE059

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COLLIER HIGH SCHOOL
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SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

August 30, 2018

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 Collier High School (Beneficiary), Billed Entity Number (BEN) 8110, using regulations and orders governing the federal Universal Service Schools and Libraries Program (SLP), set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

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

Based on the test work performed, our examination disclosed one detailed audit finding and no other matters, discussed in the Audit Results and Commitment Adjustment/Recovery Action section below. For the purpose of this report, a "detailed audit finding" is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a violation of the Rules but that warrants the attention of the Beneficiary 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 Action

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

Audit Results	Monetary Effect	Recovery Action	Commitment Adjustment
Finding #1: Second Report & Order, FCC 03-101, 18 FCC Rcd 9202, 9209-10, paras 22, 24 – Beneficiary Requested Duplicative Services. The Beneficiary's student enrollment data on its approved FY 2016 FCC Form 471 applications was not supported by its actual counts, impacting its discount rate calculations and causing an over commitment of funding.	$17,507	$0	$0
Total Net Monetary Effect	**$17,507**	**$0**	**$0**

USAC Management Response

USAC management concurs with the Audit Results stated above. USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC directs the Beneficiary to USAC's website under "Reference Area" for guidance on the E-rate application process available at (https://www.usac.org/sl/applicants/step03/default.aspx and (https://www.usac.org/sl/applicants/beforeyoubegin/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).

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year (FY) 2016. The Beneficiary is a school located in Wickatunk, New Jersey that serves more than 140 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of August 1, 2017, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	$23,047	$0
Voice Services	$11,967	$0
Internal Connections	$2,890	$0
Total	**$37,904**	**$0**

The "amount committed" total represents three FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2016 that resulted in seven Funding Request Numbers (FRNs). We selected all of the FRNs for testing and performed the audit procedures enumerated below. However, during the course of the audit, USAC processed a request from the Beneficiary to cancel three of its FY 2016 FRNs: 1699048554, 1699048563, and 1699048539. This request was dated September 18, 2017. The funding commitment related to the canceled FRNs included in the above amounts totaled $17,507.

A. Application Process

We obtained an understanding of the Beneficiary's processes relating to the SLP. Specifically, to determine if the Beneficiary used the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We performed inquiries and direct observation/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.

We obtained and examined documentation to determine whether the Beneficiary complied with the requirements of the SLP Children's Internet Protection Act (CIPA). 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.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly selected a service provider that provided eligible services, 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 a contract with the selected service provider. In addition, we evaluated the cost-effectiveness of the equipment requested and purchased.

C. Invoicing Process
We obtained and examined invoices that the Beneficiary submitted to USAC for payment after the announcement date but within the funding year 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. 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 the funding in an effective manner.

E. Reimbursement Process
We obtained and examined equipment and service invoices that the Beneficiary submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed invoices associated with the BEAR forms for equipment and services provided to the Beneficiary. We 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 were eligible in accordance with the SLP Eligible Services List.

Detailed Audit Finding

Finding No. 1, Second Report & Order, FCC 03-101, 18 FCC, Rcd 9202, 9209-10, paras 22, 24 – Beneficiary Requested Duplicative Services

Condition

The Beneficiary submitted requests for duplicative voice services under FRNs 1699048554 and 1699048539 and duplicative internet access services under FRN 1699048563. Specifically, the Beneficiary submitted three FCC Form 471 applications for Funding Year (FY) 2016. Application No. 161041628 related to Category 2 services, whereas both Application No. 161024690 and Application No. 161044947 related to Category 1 services. The Beneficiary submitted Application No. 161024690 on May 16, 2016, and Application No. 161044947 on June 6, 2016. SLP issued Funding Commitment Decision Letters for both of these applications on August 12, 2016. Beneficiaries are allowed to submit multiple funding applications; however, the Beneficiary's applications for Category 1 services included the following duplicative services:

Application No.	FRN	Type of Service	Service Provider	Pre-Discount Funding Request	Approved Discounted * Funding Commitment
161024690	1699048539	Voice	Verizon Wireless (Cellco Partnership	$7,200	$2,880
161024690	1699048554	Voice	Cablevision Lightpath of New Jersey	$7,758	$3,103
161024690	1699048563	Data Transmission and/or Internet Access	CDW Government LLC	$14,405	$11,524
Total for Application No. 161024690				**$29,363**	**$17,507**
161044947	1699099886	Voice	Verizon Wireless (Cellco Partnership)	$7,200	$2,880
161044947	1699099892	Voice	Cablevision Lightpath of New Jersey	$7,758	$3,103
161044947	1699099902	Data Transmission and/or Internet Access	CDW Government LLC	$14,405	$11,524
Total for Application No. 161044947				**$29,363**	**$17,507**

***Services discounted at 40 percent for Voice and 80 percent for Internet Access.**

We inquired with the Beneficiary and determined that both Category 1 applications were for the same student population and covered the same location during the same time period. The Beneficiary stated that its first FCC Form 471 submission (Application No. 161024690) contained clerical errors that it was unable to correct through the E-Rate Productivity Center (EPC); it therefore decided to submit a second application (Application No. 161044947) with the correct information instead.

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests, duplicative services, and service substitutions, as it did not address these errors properly.

Effect

As a result of the duplicative funding request, the Beneficiary over-committed its funding by $17,507. However, we do not recommend recovery, as the SLP had not made any disbursements as of the audit announcement date and therefore did not make any overpayments. In addition, during the course of the audit, the Beneficiary informed us that it had submitted an FCC Form 500, *Funding Commitment Adjustment Request Form*, on September 18, 2017, to request that USAC cancel the FRNs included on Application No. 161024690 (i.e., FRNs 1699048539, 1699048554, and 1699048563). We confirmed that the SLP had processed the Beneficiary's request and reduced the funding commitments for these FRNs to zero. We therefore do not recommend any further adjustments.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699048539 (Voice)	$3,103	$0	$0
1699048554 (Voice)	$2,880	$0	$0
1699048563 (Internet Access)	11,524	$0	$0
Total	**$17,507**	**$0**	**$0**

Recommendation
We recommend that the Beneficiary implement procedures to ensure that it enters data into its FCC Form 471 applications in a consistent and accurate manner.

Beneficiary Response:

> *Due to issues with EPC and the RAL process, a revised Form 471 had to be filed to correct the contract reference. The Revised Form 471 was filed at the instruction of Client Services to correct the contract reference and contained the exact same information except for contract referenced. PIA was informed of this and no BEAR forms were filed until this situation was corrected.*

Auditor Response
The explanation provided by the Beneficiary is not accurate. The initial application submitted by the Beneficiary had different internet speeds from the second application filed and we could not find any difference between the contract information on the applications. The Beneficiary was not working to resolve this issue until we brought the duplicative request to its attention during the audit.

Criteria

Finding	Criteria	Description
1	Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and	*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*

Finding	Criteria	Description
	Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202, 9209-11, paras. 22-24 (2003)	*functionality to the same population in the same location during the same period of time. We emphasize 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.* *23. 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.* *24. 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*

Finding	Criteria	Description
		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]
1	Step 1 Competitive Bidding: Ministerial & Clerical Errors, (USAC Website)	*Ministerial and clerical (M&C) errors are defined as data entry errors or mistakes applicants made on the FCC Form 470 or FCC Form 471. Such errors include only the kinds of errors that a typist might make when entering data from one list to another, such as mistyping a number, using the wrong name or phone number, failing to enter an item from the source list onto the application, or making an arithmetic error. USAC can process requests to correct M&C errors until the time that a Funding Commitment Decision Letter (FCDL) is issued.*

COTTON & COMPANY LLP

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

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

ANSHEI LUBAVITCH PRESCHOOL

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT NO. SL2017BE060

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
ANSHEI LUBAVITCH PRESCHOOL
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

August 30, 2018

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 Anshei Lubavitch Preschool (Beneficiary), Billed Entity Number (BEN) 16063956, 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 seven 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 Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding No. 1, 47 C.F.R. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471. The Beneficiary did not maintain documentation to support its student enrollment and eligibility on its FY 2016 FCC Form 471.	$33,827	$0	$31,356	$35,084
Finding No. 2: 47 C.F.R. §54.502(b) – Beneficiary Could Not Support Students Counts for Category 2 Budget. The Beneficiary was unable to support its budget for Category 2 (C2) funding for two FRNs.	$31,303	$31,303	$0	$0

[1] The monetary effect column represents the actual dollar effect of the finding without taking into account any recovery that overlaps between findings. The total in this column may therefore be more than the amount that was committed and disbursed to the Beneficiary.

[2] The overlapping recovery column represents disbursements that have already been recommended for recovery in a previous finding and therefore cannot be recovered as part of the current finding.

[3]Amounts in the recovery column may be less than the amounts reported for individual findings because we have eliminated overlapping recovery amounts to avoid duplicative recoveries.

[4] Amounts in the commitment adjustment column may be less than the amounts reported for individual findings because we have eliminated overlapping commitment adjustments to avoid duplicative recoveries.

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding No. 3: 47 C.F.R. § 54.501 – Service Provider Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students. The Service Provider invoiced the SLP for ineligible locations and did not allocate costs for ineligible students.	$31,303	$31,303	$0	$0
Finding No. 4: FCC Form 474 (SPI) User Guide – Service Provider Over-Invoiced for Ineligible Services and Equipment. Service Provider invoiced for services that were not supported as eligible MIBS services for two FRNs.	$31,303	$31,303	$0	$0
Finding No. 5: FCC Form 474 (SPI) User Guide - Service Provider Over-Invoiced SLP for Services Not Provided. The Beneficiary's service providers invoiced the SLP for the full contract amount prior to rendering recurring services.	$26,086	$26,086	$0	$0
Finding No. 6: 47 C.F.R. § 54.501 – Beneficiary Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students. The Beneficiary invoiced the SLP for ineligible locations and did not allocate costs for ineligible students.	$2,293	$2,293	$0	$0
Finding No. 7: FCC Form 472 (BEAR) User Guide. - Beneficiary Over-Invoiced SLP for Services Received for a Different FRN.	$306	$306	$0	$0

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
The Beneficiary over invoiced on FRN 199039143 for services requested and received under FRN 169903158.				
Total Net Monetary Effect	**$156,421**	**$122,594**	**$31,356**	**$35,084**

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts.

USAC will request that the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC directs the Beneficiary and Service Provider to USAC's website under "Reference Area" for guidance on Calculating Discounts available at (https://www.usac.org/sl/applicants/step03/discounts.aspx), Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/default.aspx), Invoicing – Service Providers available at (https://www.usac.org/sl/service-providers/step05/default.aspx), Document Retention available at (https://www.usac.org/sl/tools/document-retention.aspx), and Category Two Budgets available at (https://www.usac.org/sl/applicants/step03/category-two-budget.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	Commitment Adjusted Amount
1699039139	$231	$623
1699039143	$711	$9
1699039158	$0	$624
1699039166	$1,007	$0
1699039170	$575	$0
1699109661	$24,068	$0
1699109672	$7,235	$0
Total	**$33,827**	**$1,256**

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year (FY) 2016. The Beneficiary is a pre-kindergarten and private school located in Fair Lawn, New Jersey that serves more than 268 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of June 28, 2017, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Managed Internal Broadband Services	$31,303	$31,303
Internet Access	$1,199	$0
Voice	$2,581	$53
Total	**$35,083**	**$31,356**

The total "amount committed" represents two FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2016 that resulted in seven Funding Request Numbers (FRNs). We tested all of the FRNs using 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 the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We performed inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

We obtained and examined documentation to determine whether the Beneficiary complied with the requirements of the SLP Children's Internet Protection Act (CIPA). 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.

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 the funding in an effective manner.

E. Reimbursement Process
We obtained and examined equipment and service invoices that the Beneficiary submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed invoices associated with the 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. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471

Condition
The Beneficiary did not maintain documentation to support its student enrollment and eligibility on its FY 2016 FCC Form 471. Specifically, when completing the FCC Form 471, the Beneficiary estimated its student enrollment at 268 students, 156 of whom would be eligible for free or reduced-price lunches based on the Beneficiary's May 2015 income surveys, which included surveying students that only attended the summer school sessions. Per a review of the school's website, due to school-aged child care camps held, the summer school student count is not an accurate reflection of the school year population. Based on this estimate, the Beneficiary calculated an eligibility rate of 58 percent. When we requested copies of the income surveys to support this total, the Beneficiary was unable to provide this documentation. Instead, it provided

an undated Licensed Childcare Centers Explorer Search that showed enrollment of 268 students. The Beneficiary was not able to provide enrollment data from its systems to support this count. In addition, this document did not include any information regarding the number of students eligible for free or reduced-price lunches. During a USAC Program Integrity Assurance (PIA) review, the Beneficiary provided USAC with a letter dated March 1, 2016 that indicated enrollment of 268 students but did not provide any information regarding student eligibility for free or reduced-price lunches. Because the Beneficiary was unable to provide sufficient supporting documentation regarding an accurate number of school year students and the number of students eligible for free or reduced-price lunches, we were unable to recalculate the eligibility rate. Therefore, the disbursements received as of the announcement date, $31,356, and the additional disbursements within the funding year of $2,471 (for a total of $33,827 discounted) is considered unsupported.

Cause
The Beneficiary did not have sufficient controls in place to ensure that it retained documentation to support its compliance with the Rules. We inquired with Beneficiary management, which informed us that the Beneficiary typically shreds E-rate documentation after submitting it to the consultant and that the Beneficiary did not realize it was required to retain income surveys or other documentation to support its student enrollment and eligibility counts.

Effect
The monetary effect of the finding is the amount disbursed through the funding year due to the Beneficiary's inability to support the student enrollment and eligibility counts. The recommended recovery of this finding reflects the $31,356 disbursed as of the announcement date. A full commitment adjustment of $35,083 is also recommended.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
FRN 1699039139 (Voice)	$231	$53	$854
FRN 1699039143 (Voice)	$711	$0	$720
FRN 1699039158 (Internet Access)	$0	$0	$624
FRN 1699039166 (Voice)	$1,007	$0	$1,007
FRN 1699039170 (Internet Access)	$575	$0	$575
FRN 1699109661 (MIBS)	$24,068	$24,068	$24,068
FRN 1699109672 (MIBS)	$7,235	$7,235	$7,235
Total	**$33,827**	**$31,356**	**$35,083**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above in the monetary effect and reduce the commitment accordingly.

2. The Beneficiary implement stronger document retention controls to ensure that it maintains adequate information to support both its calculations and the documentation that it submits to the SLP.

Beneficiary Response

The Beneficiary was a licensed center with a capacity specified by its licensed that are in Drop Box. In addition, also deposited is an active Roster as of May 2016 which supports that number. However, it is recognized that there were students under three see the Cost Allocation Table placed in Drop Box. Also there is a survey that supports at least a 40% discount rate.

Auditor Response

To obtain universal service support, schools must meet the statutory definition of elementary and secondary schools, as provided in the Every Student Succeeds Act (20 U.S.C. Section 7801 (19) and (45)). The SLP states that certain nontraditional schools may be eligible for support if the schools provide the required instruction; these potentially eligible nontraditional schools include Head Start, pre-kindergarten, juvenile justice, and adult education student populations and facilities. However, preschool students are not eligible until they are at least 3 years of age.

The Beneficiary requested universal service support as Anshei Preschool. Even if the Beneficiary had made a separate request for funding for its daycare center, it is not an eligible entity in the SLP as the students receiving care before and after school and summer camps are already included in the student population counts for their respective elementary education facilities. Allowing beneficiaries to include daycare students in their student enrollment estimates could therefore result in the same students being counted by multiple entities.

In addition, we reviewed the roster that the Beneficiary referenced in its response and noted that the roster only included two columns of information: a one-number timestamp and a zip code. The Beneficiary highlighted 111 of the lines and indicated that these lines represented students that were less than 3 years of age; however, the Beneficiary did not provide any age-related information to support this statement. This redacted report does not provide sufficient data for us to validate the number of preschool students and the number of students under the age of 3, or to verify that the report does not include daycare students. The cost allocation table shows student enrollment of 283, which differs from the student enrollment of 268 that the Beneficiary reported on its FCC Form 471. Further, the Beneficiary only provided one family survey to support its eligibility figures. Based on these issues, we remain unable to test the validity of the eligible student count that the Beneficiary reported on its FCC Form 471. As a result, our position regarding the finding does not change.

Finding No. 2, 47 C.F.R. §54.502(b) – Beneficiary Could Not Support Students Counts for Category 2 Budget

Condition

The Beneficiary was unable to support its budget for Category 2 (C2) funding for FRNs 1699109661 and 1699109672 because it did not retain documentation to support its student enrollment and eligibility data for Funding Year (FY) 2016. The Beneficiary calculated a C2 budget of $40,602 using an estimated student enrollment of 268 students. The Beneficiary based this estimate on income surveys performed during the summer session. The Beneficiary is a preschool center that offers camps for school-age students during the summer; as such, enrollment during the summer session did not reflect enrollment during the school year. When we requested copies of income surveys or other support for enrollment during the school year, the Beneficiary was unable to provide this documentation. The C2 budget calculation is based on eligible student enrollment; without verifiable enrollment data, we were unable to recalculate the Beneficiary's C2 budget.

The Beneficiary was denied $19,500 in C2 funding during FY 2015 and received a commitment of $39,129 in C2 funding during FY 2016. Because the Beneficiary was unable to provide sufficient supporting documentation to support its school-year student enrollment, we determined that the full C2 budget is unsupported.

The table below provides additional information.

C2 Budget Approved by SLP Based on Unsupported FY 2016 Student Count	Approved Pre-Discounted C2 Budget for FY 2016	C2 Budget Discounted at Beneficiary's 80 Percent Discount Rate	C2 Funding Disbursements Received by Beneficiary in FY 2016
$40,602	$39,129	$31,303	$31,303

Cause

The Beneficiary did not have adequate processes in place to ensure that it retained documentation to support its enrollment and eligible student counts when completing its Form 471 submission. We inquired with Beneficiary management, which informed us that the Beneficiary typically shreds E-rate documentation after submitting it to the consultant and that the Beneficiary did not realize it was required to retain income surveys or other documentation to support its student enrollment and eligibility counts.

Effect

The monetary effect, recommended recovery, and commitment adjustment is $31,303, based on disbursements received as of the audit announcement date.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
FRN 1699109661 (MIBS)	$24,068	$24,068	$24,068
FRN 1699109672 (MIBS)	$7,235	$7,235	$7,235
Total	**$31,303**	**$31, 303**	**$31,303**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary implement stronger controls to ensure that it accurately estimates student enrollment and eligibility data impacting its C2 budget when completing its Form 471 submissions.

Beneficiary Response

The Beneficiary was a licensed center with a capacity specified by its licensed that are in Drop Box. In addition, also deposited is an active Roster as of May 2016 which supports that number. However, it is recognized that there were students under three see the Cost Allocation Table placed in Drop Box. Also there is a survey that supports at least a 40% discount rate.

Auditor Response
The Beneficiary's response to this finding is identical to its response to Finding 1; as such, our response also has not changed. The Beneficiary did not provide sufficient support to enable us determine the accuracy of the student enrollment count; as such, the C2 budget is unsupported. As a result, our position regarding the finding does not change.

Finding No. 3, 47 C.F.R. §54.501 – Service Provider Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students

Condition
CSI Communication & Security, Inc. (Service Provider) invoiced the SLP for ineligible locations and did not allocate costs for ineligible students. The Beneficiary requested and received funding for managed internal broadband services (MIBS) for its primary building and its annex under two separate FRNs: 1699109661 and 1699109672.

We visited the Beneficiary's primary building and annex and noted that the Beneficiary uses approximately 9 of its 15 total classrooms for students who are under the age of 3 and are therefore not considered eligible for the E-rate program. The Beneficiary was unable to provide an exact count of its ineligible students. We noted that the Beneficiary did not properly allocate funding for services that could have been used by ineligible portions of the campus. Specifically, we examined the Beneficiary's SPIs, funding requests, Service Provider bills, and other available documentation and identified the following issues with these FRNs and the services provided:

FRN1699109661

- The Beneficiary obtained MIBS for equipment under FRN 1699109661, for which the SLP approved an annual discounted commitment amount of $24,068. The Service Provider had requested and approved the full $24,068 as of the audit announcement date. The Beneficiary uses eight classrooms in the primary building for children who are under the age of 3. We reviewed the Service Provider's request for reimbursement from the SLP, dated September 26, 2016, and noted that the Service Provider did not allocate any funding to account for services provided to these ineligible locations; instead, it requested reimbursement for the full cost of the services. Without exact counts of ineligible and eligible students for which to allocate, the full disbursement amount of $24,068 is ineligible, and the SLP should reduce the commitment amount to $0.

FRN 1699109672

- The Beneficiary obtained MIBS for equipment under FRN 1699109672, for which the SLP approved an annual discounted commitment amount of $7,235. The Service Provider had requested and received the full $7,235 as of the audit announcement date. The Beneficiary uses one classroom in the annex for children who are under the age of 3 that is not eligible for E-rate services. We reviewed the Service Provider's request for reimbursement from the SLP, dated September 26, 2016, and noted that the Service Provider did not allocate any funding to account for services provided to these ineligible locations; instead, it requested reimbursement for the full cost of the services. Without exact counts of ineligible and eligible students for which to allocate, the full disbursement amount of $7,235 is ineligible, and the SLP should reduce the commitment amount to $0.

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices by the Service Provider for services approved by the SLP.

Effect

The monetary effect, recommended recovery and commitment adjustment is $31,303, based on disbursements received beyond the audit announcement date.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
FRN 1699109661 (MIBS)	$24,068	$24,068	$24,068
FRN 1699109672 (MIBS)	$7,235	$7,235	$7,235
Total	**$31,303**	**$31, 303**	**$31,303**

Recommendation

We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary implement stronger document retention controls and develop proper cost allocation methods for allocating ineligible student use.

3. The Service Provider implement stronger review controls to ensure that SPIs only include the cost of eligible and approved services before submitting the SPIs to the SLP.

Beneficiary Response

The Beneficiary was a licensed center with a capacity specified by its licensed that are in Drop Box. In addition, also deposited is an active Roster as of May 2016 which supports that number. However, it is recognized that there were students under three see the attached Cost Allocation Table. We submit that the recovery of the entire disbursements is unwarranted and not supported by the data and documentation provided.

Service Provider Response

We requested an independent response from the Service Provider; however, the Service Provider did not respond to this request.

Auditor Response

We reviewed the cost allocation table that the Beneficiary provided in its response and evaluated the information relating to the two MIBS FRNs included in this finding. Given that that the cost allocation table is not dated and the Beneficiary did not provide it during the audit fieldwork, it is possible that the Beneficiary recently prepared the allocation table. However, there is still not adequate support for the data within the table. As noted in Finding 1, the roster that the Beneficiary referenced in its response only includes two columns of information: a one-number timestamp and a zip code. The Beneficiary highlighted 111 of the lines and indicated that these lines represented students that were less than 3 years of age; however, the Beneficiary did not provide any age-related information to support this statement. In addition, the roster includes ineligible daycare students. As such, this redacted report does not provide sufficient data to enable us to validate the number of eligible preschool students. The cost allocation table shows student enrollment of 283, which differs from the student enrollment of 268 that the Beneficiary reported on its FCC Form 471. We are therefore unable to use the support provided to accurately determine the Beneficiary's eligible and ineligible student enrollment and calculate an appropriate allocation for ineligible students. As a result, our position regarding the finding does not change.

Finding No. 4, FCC Form 474 (SPI) User Guide – Service Provider Over-Invoiced for Ineligible Services and Equipment

CSI Communication & Security, Inc. (Service Provider) invoiced for services that were not supported as eligible MIBS for FRNs 1699109661 and 1699109672. The approved FCC Form 470 described the services as "Managed Internal Broadband Services: Existing Equipment," while the Form 471 described the services as "Managed Internal Broadband Services; Managed by a third party service provider, and purchased from them or other vendors."

The Beneficiary had two Service Provider contracts in place: one for FRN 1699109661, which relates to services for the Beneficiary's primary building, and one for FRN 1699109672, which relates to services for the annex. The annex was the Beneficiary's original building before the Beneficiary expanded; it is located down the street from the primary building and houses two classrooms and a multi-purpose room.

We examined the Service Provider contracts and invoices to determine whether the services provided under these two FRNs qualified as eligible MIBS services for SLP support. We noted that:

- The contracts between the Beneficiary and the Service Provider listed a description of each piece of equipment included under each contract, as well as a quantity and dollar value for each item; however, the contracts did not refer to the performance of specific services that would constitute eligible MIBS services.
- The Beneficiary indicated that the contracts were for a period of five years; however, we noted that the contracts and invoices only show a period of performance from July 1, 2016, through June 30, 2017. Both contracts are dated February 2, 2016.
- We conducted a site visit to verify the existence of the equipment that was included under the MIBS contracts. However, the Beneficiary was unable to locate certain pieces of equipment, and we noted that other items, such as network security, network switch POE, and wireless access point equipment, did not match the items that the Beneficiary included on its approved FCC Form 471s and contracted for with the Service Provider. We inquired with the Beneficiary, which indicated that the equipment included in the contract was its "wish list" that it had requested from USAC under an internal connection FRN. USAC had denied the funding, and the Beneficiary therefore purchased different equipment using its own funds. As such, the equipment actually purchased did not match the equipment listed on the contract. Additionally, there was not existing equipment in place as initially indicated on the FCC Form 470.
- We requested evidence to support the equipment purchase, to ensure the equipment was not purchased under this contract, however, no documentation was provided.

The following table shows the specific equipment listed in each contract and the results of our site visit observations:

FRN	Quantity per Contract	Item and Description per Contract	Site Visit Results
1699109661	1	**Network Security:** Dell SonicWALL TZ300, Dell SonicWALL TZ300 TotalSecure, 5 User VPN	No Dell Sonic Wall on site Beneficiary had a Netgear Prosafe SRX 5308
	2	**Network Switch POE:** Dell Networking X1018P Smart Web Managed Switch, 48x 1GbE (24x PoE - up to 12x PoE+) 4x 10GbE SFP+	No Dell Networking X1018P on site Beneficiary had a Dell PowerConnect 2824
	2	**Fiber Optic Transceiver:** Dell Networking, Transceiver, SFP+, 10GbE, SR, 850nm Wavelengt	Observed

FRN	Quantity per Contract	Item and Description per Contract	Site Visit Results
	1 2 2	**Fiber Optic Backbone:** Fiber Optic cable run up to 500 feet; Patch box; Patch cables	Not on site; no explanation provided
	1 1 8	**Wireless Controller:** RUCKUS WIRELESS : ZoneDirector 1200; Part WD Supp for ZD1205, 1yr; ZD1200 Single AP license upgrade	Not purchased
	12	**Wireless Access Point:** RUCKUS WIRELESS : ZF R500, DUALBAND 802.11AC WIRELESS AP	No Ruckus Wireless APs Beneficiary had eight Ubiquiti APs
	34 2 52	**Network Wiring:** CAT6a Network run; CAT6a Network Patch panel; CAT6a Network patch cables	Observed cables; could not verify quantity
	2	**UPS:** APC Smart-UPS RM SMT1500RM2U 1000W/1440VA 2U Rackmount LCD UPS System	Observed
	1	**Network Rack:** Dell Netshelter SX 42U Rack Enclosure	Observed
1699109672	1	**Network Security:** Dell SonicWALL TZ300, Dell SonicWALL TZ300 TotalSecure, 5 User VPN	No Dell SonicWall on site Beneficiary had Netgear Prosafe SRX 5308
	1	**Network Switch POE:** Dell Networking X1018P Smart Web Managed Switch, 16x 1GbE PoE and 2x 1GbE SFP Ports	Observed
	1 1	**Wireless Controller:** RUCKUS WIRELESS: ZoneDirector 1200; Part WD Supp for ZD1205, 1yr	Not purchased
	3	**Wireless Access Point:** RUCKUS WIRELESS : ZF R500, DUALBAND 802.11AC WIRELESS AP	No Ruckus Wireless APs on site Beneficiary had four Ubiquiti APs

FRN	Quantity per Contract	Item and Description per Contract	Site Visit Results
	8 1 16	**Network Wiring:** CAT6a Network run; CAT6a Network Patch panel; CAT6a Network patch cables	Observed cables; could not verify quantity
	1	**UPS:** APC Smart-UPS RM SMT1500RM2U 1000W/1440VA 2U Rackmount LCD UPS System	Observed
	1	**Network Rack:** 12U Wall rack	Observed

Based on the discrepancies noted above, a majority of the limited equipment that was inspected was not the equipment as approved for MIBS. We were unable to determine whether the MIBS services disbursed under FRNs 1699109661 and 1699109672 were eligible, as the Beneficiary was unable to provide sufficient evidence to support a valid MIBS contract was in place over existing eligible and approved equipment.

Cause

The Beneficiary did not have adequate processes in place to maintain the required documentation and did not have sufficient knowledge of the requirements for requesting MIBS under the FCC Form 471 approval process.

Effect

The monetary effect of this finding is $31,303 ($39,128 discounted at 80 percent), or the total amount funded and disbursed for FRNs 1699109661 and 1699109672.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699109661 (MIBS)	$24,068	$24,068	$24,068
1699109672 (MIBS)	$7,235	$7,235	$7,235
Total	**$31,303**	**$31,303**	**$31,303**

Recommendation

We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Beneficiary only request MIBS support for eligible services and maintain supporting documentation for these services, as required by the Rules.

3. The Service Provider ensure requests are made for reimbursement from SLP for services that can be supported as eligible under the Rules.

Beneficiary Response

We submit there were certain components that were replaced with comparable components that have the same functionality as the listed components and would be approved under the Service Substitution test.

Service Provider Response

We requested an independent response from the Service Provider; however, the Service Provider did not respond to this request.

Auditor Response

As noted in the finding, the contracts that the Beneficiary entered into under the specified FRNs do not provide sufficient information to enable us to verify the MIBS services that the Beneficiary actually received. In addition, the Beneficiary's response does not address the issues related to missing equipment, inconsistent periods of performance, and insufficient documentation to support the equipment purchased. The Beneficiary's response refers to like functionality for the equipment and states that the equipment would be approved under the service substitution test; however, the Beneficiary did not file a service substitution request. In addition, the Beneficiary's response indicates that the Beneficiary was aware that the equipment purchased differed from the equipment requested and was familiar with the program requirements related to service substitutions; as such, it is unclear why the Beneficiary did not submit a service substitution request prior to or during the audit. As a result, our position regarding the finding does not change.

Finding No. 5, FCC Form 474 (SPI) User Guide – Service Provider Over-Invoiced SLP for Services Not Provided

Condition

The Beneficiary's Service Providers invoiced the SLP for the full contract amount prior to rendering recurring services, as follows:

FRN 1699109661

The Beneficiary requested and received funding for recurring MIBS for its primary building under FRN 1699109661. The approved FCC Form 471 specified that the Beneficiary would obtain "MIBS, Managed Internal Broadband Service; Managed by a third party service provider and purchased from them or other vendors" from CSI Communication & Security, Inc. (Service Provider) at a monthly pre-discount cost of $2,507, for a total pre-discount cost of $30,084 ($24,068 when discounted at the Beneficiary's 80 percent discount rate). The Beneficiary entered into a contract with the Service Provider for the services on February 6, 2016. The contract included a period of performance from July 1, 2016, through June 30, 2017, and showed a list of equipment and the quantity and cost of each piece of equipment.

On September 23, 2016, the Service Provider invoiced the SLP for the full discounted annual total of $24,068. This invoice included a customer bill date of September 1, 2016, when 10 months of the services had not been delivered to the Beneficiary as required for invoicing SLP and as certified by the Service Provider on the Form 474. The Service Provider did not invoice the Beneficiary for its pre-discounted portion of $6,016 until July 1, 2017, after the end of the performance period. In addition, we noted that the description of services included on the invoice to the Beneficiary does not match the description in the contract; instead, it states, "MIB services July 1, 2016-June 30, 2017." Therefore, the Service Provider invoiced SLP for 10 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. Therefore, $20,057 ($24,068 divided by 12 months, or $2,005.67, multiplied by 10 months) is considered not eligible for reimbursement under the SLP.

FRN 1699109672
The Beneficiary requested and received funding for recurring MIBS for its annex under FRN 1699109672. The approved FCC Form 471 specified that the Beneficiary would obtain "MIBS2, Managed Internal Broadband Service; Managed by a third party service provider and purchased from them or other vendors" from CSI Communication & Security, Inc. (Service Provider) at a monthly pre-discount cost of $754 (rounded), and a total pre-discount cost of $9,044 ($7,235 when discounted at the Beneficiary's 80 percent discount rate). The Beneficiary entered into a contract with the Service Provider for the requested services on February 6, 2016. The contract included a period of performance from July 1, 2016, through June 30, 2017, and showed a list of equipment and the quantity and cost of each piece of equipment.

On September 23, 2016, the Service Provider invoiced the SLP for the full discounted total of $7,235. The invoice included a customer bill date of September 1, 2016, when 10 months of the services had not been delivered to the Beneficiary as required for invoicing SLP and as certified by the Service Provider on the Form 474. The Service Provider did not invoice the Beneficiary for its pre-discounted portion of $1,809 until July 1, 2017, after the end of the performance period. In addition, we noted that the description of services included on the invoice to the Beneficiary does not match the description in the contract; instead, it states, "MIB services July 1, 2016-June 30, 2017." Therefore, the Service Provider invoiced SLP for 10 months of services that it had not delivered to the Beneficiary at the time of invoicing, a requirement for which it certified on the Form 474. Therefore, $6,029 ($7,235 divided by 12 months, or $602.92, multiplied by 10 months) is considered not eligible for reimbursement under the SLP.

Cause
The Service Provider did not have processes in place to ensure that it invoiced the SLP for services only after it had rendered, delivered, and properly billed the services.

Effect
The monetary effect, recommended recovery, and commitment adjustment for this finding is $26,086.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699109661 (MIBS)	$20,057	$20,057	$20,057
1699109672 (MIBS)	$6,029	$6,029	$6,029
Total	**$26,086**	**$26,086**	**$26,086**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above and reduce the commitment accordingly.

2. The Service Provider implement controls to ensure that it invoices the SLP only after it renders and delivers the services.

Beneficiary Response

The school signed an ANNUAL contract which results in a less expensive product and complies with the e-rate "cost effectiveness" requirements. Other than alleged provider invoicing issues, the school complied with all other requirements and a recommendation for a commitment adjustment is unwarranted and duly harmful.

We contend that the issue is moot since at the time of the Audit, all services for program year 2016 were fully delivered certified and paid for.

Auditor Response
As part of our testing, we determined that the services contracted under these FRNs constitute MIBS services provided on a recurring basis throughout the period, rather than at a single point in time. Beneficiaries may enter into an annual contract if the service provider does not bill until the end of the service period; however, the service provider may not bill at the beginning of the contract year, prior to delivering the services for the period. Whether the advance payments were cost-effective or not is irrelevant because the SLP can only be invoiced after the services are performed. As a result, our position regarding the finding does not change.

<u>Finding No. 6, 47 C.F.R. §54.501 – Beneficiary Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students</u>

Condition
The Beneficiary invoiced the SLP for ineligible locations and did not allocate costs for ineligible students. The Beneficiary requested and received funding for voice services and internet access services for its primary building and its annex under four separate FRNs: 1699039143, 1699039158, 1699039166, and 1699039170.

We visited the Beneficiary's primary building and annex and noted that the Beneficiary uses approximately 9 of its 15 total classrooms for students who are under the age of 3 and are therefore not considered eligible for the E-rate program. The Beneficiary was unable to provide an exact count of its ineligible students. We noted that the Beneficiary did not properly allocate funding for services that could have been used by ineligible portions of the campus. Specifically, we examined the Beneficiary's funding requests, Service Provider bills, and other available documentation and identified the following issues with these FRNs and the services provided:

- The Beneficiary obtained Plain Old Telephone Service (POTS) under FRN 1699039143, for which the SLP approved an annual discounted commitment amount of $720. The Beneficiary had not requested any disbursements under this FRN as of the audit announcement date; however, as of the end of the funding year, it had requested and received $711. Every classroom in the Beneficiary's primary building has a telephone that uses these voice services, including eight classrooms that the Beneficiary uses for children who are under the age of 3 that are not eligible for E-rate services. We noted that the Beneficiary did not allocate any funding to account for services provided to these ineligible locations. Without exact counts of ineligible and eligible students for which to allocate as a result, the full disbursement amount is ineligible, and the SLP should reduce the commitment amount to $0.

- The Beneficiary obtained internet access under FRN 1699039158, for which the SLP approved an annual discounted commitment amount of $624. The SLP had not made any disbursements as of the audit announcement date; however, the Beneficiary requested and received an invoicing extension for this FRN through February 28, 2018. Every classroom in the Beneficiary's primary building uses these internet services, including eight classrooms that the Beneficiary uses for children who are under the age of 3 that are not eligible for E-rate services. We noted that the Beneficiary did not allocate any funding to account for services provided to these ineligible locations. Without exact counts of ineligible and eligible students for which to allocate, and although the SLP has not made any disbursements under this FRN, the full commitment amount is ineligible, and the SLP should reduce it to $0.

- The Beneficiary obtained Voice over Internet Protocol (VoIP) services under FRN 1699039166, for which the SLP approved an annual discounted commitment amount of $1,007. The Beneficiary had not requested any disbursements under this FRN as of the audit announcement date; however, as of the end of the funding year, it had requested and received the full $1,007. Every classroom in the Beneficiary's primary building and annex has a telephone that uses these voice services, including nine classrooms that the Beneficiary uses for children who are under the age of 3 that are not eligible for E-rate services. We noted that the Beneficiary did not allocate any funding to account for services provided to these ineligible locations. Without exact counts of ineligible and eligible students for which to allocate, the full disbursement amount is ineligible, and the SLP should reduce the commitment amount to $0.

- The Beneficiary obtained internet access under FRN 1699039170, for which the SLP approved an annual discounted commitment amount of $575. The Beneficiary had not requested any disbursements under this FRN as of the audit announcement date; however, as of the end of the funding year, it had requested and received the full $575. Every classroom in the Beneficiary's primary building and annex used these internet access services, including nine classrooms that the Beneficiary uses for children who are under the age of 3 and that are therefore only partly eligible for E-rate services. We noted that the Beneficiary did not allocate any funding to account for services provided to these ineligible locations. Without exact counts of ineligible and eligible students for which to allocate, the full disbursement amount is ineligible, and the SLP should reduce the commitment amount to $0.

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices for services approved by the SLP.

Effect
The monetary effect is $2,293, based on disbursements received beyond the audit announcement date. In addition, we recommend that the SLP adjust the commitment by the full amount of $2,926.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
FRN 1699039143 (Voice)	$711	$0	$720
FRN 1699039158 (Internet Access)	$0	$0	$624
FRN 1699039166 (Voice)	$1,007	$0	$1,007
FRN 1699039170 (Internet Access)	$575	$0	$575
Total	**$2,293**	**$0**	**$2,926**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts paid after June 28, 2017 as identified above in the monetary effect and reduce the commitment accordingly.

2. The Beneficiary implement stronger document retention controls and develop proper cost allocation methods for allocating ineligible student use.

3. The Beneficiary implement stronger review controls to ensure that BEARs only include the cost of eligible and approved services before submitting the BEARs to the SLP.

Beneficiary Response
See Cost Allocation Table.

Auditor Response

The Beneficiary's response references the cost allocation table that the Beneficiary provided in its response to Finding 1. We evaluated this table as it pertains to the FRNs included in this finding. Given that that the table is not dated and the Beneficiary did not provide it during the audit fieldwork, it is likely that the Beneficiary recently prepared the table to back into the allocation formula. The Beneficiary's response to Finding 1 also included a roster to support its student enrollment information; however, this roster did not include sufficient age-related information to support those less than 3 years and it included those that were daycare students. Additional the Beneficiary's allocation table utilized different enrollment figures than was approved on its FCC Form 471. We are therefore unable to use the support provided to accurately determine the Beneficiary's eligible and ineligible student enrollment and calculate an appropriate allocation for ineligible students. As a result, our position regarding the finding does not change.

Finding No. 7, FCC Form 472 (BEAR) User Guide, Beneficiary Over-Invoiced SLP for Services Received for a Different FRN

Condition

The Beneficiary over invoiced on FRN 1699039143 for services requested and received under FRN 1699039158. The Beneficiary contracted with Verizon New Jersey, Inc. for POTS under this FRN, and the SLP approved an annual total discounted $720 ($1,800 discounted at 40 percent). The Beneficiary provided the Verizon New Jersey, Inc. invoice to support the $1,800 request at $150 a month when requested during the USAC Program Integrity Assurance (PIA) review. This $150 included $65 for Internet Access that was also requested and approved under FRN 1699039158 as well as $85 for Voice. As of the audit announcement date, no disbursements had been paid on FRN 1699039143, however, $711 was paid by the end of the funding year.

Removing this $65 per month Internet cost from the funded amount, only $408 ($1,020 discounted at the Beneficiary's 40 percent discount rate) is eligible ($150 less $65 multiplied by 12 months) $1,020 discounted at 40 percent. As a result, $312 ($720 less $408) is ineligible 43 percent of the original monthly amount. Since $711 was disbursed, $306 is ineligible (43 percent of $312).

Cause

The Beneficiary was unable to provide clear or complete explanations or evidence regarding its multiple requests for similar services and did not demonstrate sufficient understanding of the SLP Rules.

Effect

The monetary effect of this finding is $306, or the amount disbursed for FRN 1699039143. The total impact to commitments is $306.

FRN	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699039143 (Voice)	$306	$0	$306
Total	**$306**	**$0**	**$306**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts identified above in the monetary effect and reduce the commitment accordingly.

2. The Beneficiary implement controls to ensure that:

    - Future SLP funding requests are accurate and non-duplicative and only relate to eligible services.

    - It maintains supporting documentation in accordance with the SLP Rules.

Beneficiary Response
The Beneficiary did not respond to this finding.

Auditor Response
Because the Beneficiary did not provide a response to this finding, our position regarding this finding does not change.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.505 (2015).	*(a) Discount mechanism. Discounts for eligible schools and libraries shall be set as a percentage discount from the pre-discount price.* *(b) Discount percentages. The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers, as defined in this subpart. The discounts available to a particular school, library, or consortium of only such entities shall be determined by indicators of poverty and high cost.* *(1) For schools and school districts, the level of poverty shall be based on the percentage of the student enrollment*

Finding	Criteria	Description
		that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism. School districts shall divide the total number of students eligible for the National School Lunch Program within the school district by the total number of students within the school district to arrive at a percentage of students eligible. This percentage rate shall then be applied to the discount matrix to set a discount rate for the supported services purchased by all schools within the school district. Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.
2	47 C.F.R. §54.502(b) (2015).	***(1)*** Five-year budget. *Each eligible school or library shall be eligible for a budgeted amount of support for category two services over a five-year funding cycle beginning the first funding year support is received. Excluding support for internal connections received prior to funding year 2015, each school or library shall be eligible for the total available budget less any support received for category two services in the prior funding years of that school's or library's five-year funding cycle.* ***(2)*** School budget. E*ach eligible school shall be eligible for support for category two services up to a pre-discount price of $150 per student over a five-year funding cycle. Applicants shall provide the student count per school, calculated at the time that the discount is calculated each funding year. New schools may estimate the number of students, but shall repay any support provided in excess of the maximum budget based on student enrollment the following funding year.*
3, 6	47 C.F.R. § 54.501 (2015).	***(1)*** *Only schools meeting the statutory definition of "elementary school" or "secondary school" as defined in §54.500 of this subpart, and not excluded under paragraphs (a)(2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.*
3, 6	School and Library Eligibility, www.usac.org (September 2015).	*The following provides information on the eligibility of Head Start, pre-kindergarten, juvenile justice, adult education, and special education students and facilities for Schools and Libraries Program support, as determined by state law.* ***For All States:***

Finding	Criteria	Description
		Head Start services for children less than three years old are not eligible for discounts and must be cost allocated, unless otherwise noted.
4, 5	Schools and Libraries (E-rate) Program, FCC Form 474 (SPI) User Guide, at 3.	*Purpose of FCC Form 474* *Service providers use the FCC Form 474, Service Provider Invoice (SPI) Form, to request reimbursements from the Universal Service Administrative Company (USAC) for eligible services provided at discounted prices. The service provider must provide the service and give a discounted bill to the applicant prior to submitting the FCC Form 474.* *ALL of the following conditions must occur before a service provider prepares and submits the FCC Form 474 to USAC:* *1. The service provider receives a Funding Commitment Decision Letter (FCDL) from USAC which approves eligible discounts for services; AND* *2. The eligible applicant is already receiving or has received these services; AND* *3. The service provider has billed the applicant for its non-discount share of the services; AND* *4. The service provider has received its FCC Form 486 Notification Letter; AND* *5. The service provider has filed an FCC Form 473, Service Provider Annual Certification Form, for the corresponding funding year.*
7	Schools and Libraries (E-rate) Program, FCC Form 472 (BEAR) User Guide, at 16-17.	***Column (12) – Total (Undiscounted) Amount for Service per FRN.*** *The total undiscounted amount represents the total amount represents the full cost of the services delivered on this FRN for the period indicated. You must deduct charges for any ineligible services, or for eligible services delivered for ineligible recipients or used for ineligible purposes. You should gather your customer bills and any other documentation you need to support your calculations.* ***<u>Block 3 Billed Entity Certification</u>*** *A. The discount amounts listed in this Billed Entity Applicant Reimbursement Form represent charges for eligible services and/or equipment 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.* *B. The discount amounts listed in this Billed Entity Applicant Reimbursement Form were already billed by the Service Provider and paid for by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities.*

Finding	Criteria	Description
		C. The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by the Fund Administrator pursuant to a Funding Commitment Decision Letter (FCDL). *D. I acknowledge that I may be audited pursuant to this application and will retain for at least 10 years (or whatever retention period is required by the rules in effect at the time of this certification), after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request any and all records that I rely upon to complete this form.* *E. I certify that, in addition to the foregoing, this Billed Entity Applicant 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 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.*
1, 2, 3, 4, 5, 6, 7	47 C.F.R. § 54.516 (2015).	***(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 two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.* ***(2) Service providers****. Service providers shall retain documents related to the 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.*

Finding	Criteria	Description
		***(b) Production of records**. Schools, libraries, consortia, and service providers shall produce such records at the request of any representative (including any auditor) appointed by a state education department, the Administrator, the FCC, or any local, state or federal agency with jurisdiction over the entity.*

COTTON & COMPANY LLP

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

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

THE WILLIAMSBURG CHARTER SCHOOL

COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

USAC AUDIT NO. SL2017BE063

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SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

August 30, 2018

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 The Williamsburg Charter School (Beneficiary), Billed Entity Number (BEN) 16034151, 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 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 Action

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	Recovery Action	Commitment Adjustment
Finding No. 1: 47 C.F.R. § 54.504 – Beneficiary Over-Invoiced SLP for Services Not Requested. The Beneficiary invoiced the SLP for four additional voice lines that were not included on the Beneficiary's approved FCC Form 471.	$1,176	$0	$1,176
Finding No. 2: 47 C.F.R. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471. The Beneficiary incorrectly estimated its student enrollment and eligibility counts on its FCC Form 471.	$0	$0	$0
Total Net Monetary Effect	**$1,176**	**$0**	**$1,176**

USAC Management Response
USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC directs the Beneficiary to USAC's website under "Reference Area" for guidance on Calculating Discounts available at (https://www.usac.org/sl/applicants/step03/discounts.aspx) and Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/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).

FRN	Recovery Amount
1699133819	$1,176

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2016. The Beneficiary is a public charter school located in Brooklyn, New York that serves more than 950 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of September 5, 2017, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	$86,596	$72,414
Voice	$3,538	$83
Total	**$90,134**	**$72,497**

The "amount committed" total represents two FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2016 that resulted in five Funding Request Numbers (FRNs). We tested four of the FRNs using 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 the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the 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 USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

We obtained and examined documentation to determine whether the Beneficiary complied with the requirements of the SLP Children's Internet Protection Act (CIPA). 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.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly selected a service provider that provided eligible services, 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)*, and 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. 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 whether the Beneficiary had the necessary resources to support the equipment and services for which it requested funding and evaluated the cost-effectiveness of the equipment and services purchased to determine whether the Beneficiary was using the funding in an effective manner.

E. Reimbursement Process

We obtained and examined equipment and service invoices that the Beneficiary submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed invoices associated with the 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. § 54.504 – Beneficiary Over-Invoiced SLP for Services Not Requested

Condition

The Beneficiary invoiced the SLP for four additional voice lines that were not included on the Beneficiary's approved FCC Form 471. The Beneficiary requested and received approval for two "Voice- POTS" lines under FRN 1699133819 on its FCC Form 471 Application No. 161057485. The Beneficiary contracted with BCM One, Inc. (Service Provider) to obtain two voice lines at $147 each, for a monthly pre-discount cost of $294 and a total pre-discount cost of $3,528 ($1,764 when discounted at the Beneficiary's 50 percent discount rate).

The Service Provider acted as a reseller under this contract and contracted with Broadview Networks (Broadview) to provide the contracted voice services to the Beneficiary. We reviewed one of Broadview's invoices to the Service Provider, dated August 18, 2016, and noted that Broadview had billed the Service Provider for six POTS billing telephone numbers, rather than the two lines requested and approved on the Beneficiary's FCC Form 471.

We reviewed the Service Provider's Master Service Agreement, dated March 24, 2014, and its invoices to the Beneficiary and noted that the Service Provider billed the Beneficiary for six voice lines at $49 each, or a monthly pre-discount cost of $294. At $49 per line, the total monthly pre-discounted cost for two voice lines should have been $98, for a total pre-discount cost of $1,176 ($588 when discounted at the Beneficiary's 50 percent discount rate). The Beneficiary therefore over-invoiced the SLP for four lines at $49 each, or a monthly pre-discount cost of $196 and a total pre-discount cost of $2,352 ($1,176 when discounted at the Beneficiary's 50 percent discount rate).

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the submission of invoices for services approved by the SLP. In addition, the Beneficiary did not have adequate controls and procedures in place to ensure that it invoiced the SLP only for the discounted costs of approved eligible services and equipment.

Effect
The total monetary effect and commitment adjustment for this finding is $1,176 based on disbursements received after the audit announcement date of September 5, 2017, but within the funding period. The SLP had not disbursed any funds as of the audit announcement date.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
FRN 1699133819 (Voice)	$1,176	$0	$1,176

Recommendation
We recommend that:

1. USAC seek recovery of the amounts disbursed after the announcement date of September 5, 2017, as identified above in the commitment adjustment.

2. The Beneficiary implement stronger controls to ensure that it does not invoice the SLP for unapproved services.

Beneficiary Response

The Beneficiary DID NOT bill USAC for 4 telephones. For 11 out of 12 months it billed USAC for TWO telephone lines ending in 0475 & 0476 and many months for just ONE line. For the month of MAY it also billed USAC for a third line ending in 0471 at a cost to USAC for .20 which is an negligible amount that should have absolutely no impact upon the FRN. The notion of reducing the FRN to account for additional unauthorized lines is without merit and not supported by the facts.

Auditor Response
In the report the Beneficiary stated they "….did not bill USAC for 4 telephones….," however we revisited the testing that was performed and the documentation that we were provided to arrive at this finding. The FCC Form 471 Application No. 161057485 clearly indicates that only two POTS lines were approved. The Beneficiary signed a master service agreement with McGraw Communications on March 24, 2014 for a thirty-six month period which refers to six POTs lines on the Attachment A to this agreement. (McGraw Communications is the dba for BCM One, Inc., the contracted Service Provider). The invoices for September 2016 through June 2017 reviewed showed six POTS lines that were being charged monthly during the funding period and not the two POTS lines, as the Beneficiary indicates in its response. Additionally, the Service Provider (BCM One, Inc.) verified on a call held on January 23, 2018, that six lines were being charged to USAC which represents four lines more than the number of lines approved on the FCC Form 471. In fact, the Beneficiary refers to a third phone line in the response which exceeds the approved number of two lines on the FCC Form 471 but asserts this is not accurate. As a result of the fact pattern and support documentation used for this FRN testing, our position regarding the finding does not change.

Finding No. 2, 47 C.F.R. § 54.505 – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471

Condition

The Beneficiary incorrectly estimated its student enrollment and eligibility on its Funding Year 2016 FCC Form 471. Specifically, when completing its FCC Form 471, the Beneficiary estimated its student enrollment at 979 students, 853 of whom would be eligible for free or reduced-price lunches. Based on this estimate, the Beneficiary calculated an eligibility percentage of 87 percent. When we requested support for this total, the Beneficiary provided a January 2016 Enrollment and Eligibility lunch statement that indicated an enrollment of 967 students, 796 of whom would be eligible for free or reduced-price lunches. We recalculated the percentage based on this lunch statement and arrived at an 82 percent eligibility rate.

Additionally, a document from the National Center for Education Statistics (NCES) shows the Beneficiary's student enrollment at 960 students, 772 of whom would be eligible for free or reduced-price lunches. We recalculated the percentage based on this document and arrived at an 80 percent eligibility rate. We also found student enrollment and eligibility numbers for the Beneficiary's 2015-2016 school year on the New York State Education Department (NYSED) website. The NYSED website showed 2015-2016 student enrollment at 966 students, 807 of whom would be eligible for free or reduced-price lunches as it should have reflected student enrollment for the FY 2016 period under audit. We calculated an eligibility percentage of 84 percent based on the 2015-2016 student enrollment. Based on our recalculations, the discount percentage remained unchanged for the Beneficiary's Category 1 services, at 90 percent for Internet Access and 50 percent for Voice Services. A comparison of the recalculations is in the table below:

Discount Recalculation	Included on FCC Form 471	Recalculated Based on:		
		January 2016 Enrollment and Eligibility	NCES	NYSED 2015-2016
Enrolled	979	967	960	966
Eligible	853	796	772	807
Eligibility Rate	87%	82%	80%	84%

The inconsistency between the various student enrollment and eligibility counts did not impact the Beneficiary's discount percentage calculation as the eligibility percentages of 80 to 84 percent does not alter the discount level; however, the Beneficiary's inability to provide documentation to support the eligible student counts reported in its FCC Form 471 represents a compliance finding.

Cause

The Beneficiary did not have sufficient controls in place to ensure that it retained documentation in compliance with the Rules. As discussed with the Beneficiary, the Department of Education documentation, which contained the correct enrollment and eligibility data as of January 2016, should have been used when completing the FCC Form 471. However, the Beneficiary's USAC profile was locked during the filing window preventing the Beneficiary from making changes to its reported enrollment and eligibility rate, so it is still unclear what documentation the Beneficiary used to report this information.

Effect

Because the erroneous student enrollment and eligibility estimate did not materially impact the Beneficiary's discount percentage, there is no monetary effect, recommended recovery, or commitment adjustment for this finding. However, by not retaining documentation to verify that the Beneficiary used accurate enrollment and eligibility estimates when completing its Form 471 submission, the Beneficiary is at an increased risk of future exceptions, including exceeding its Category 2 budget.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
All Sampled FRNs/All Services	$0	$0	$0

Recommendation

We recommend that the Beneficiary implement stronger document retention controls to ensure that it maintains adequate information to support both its calculations and the documentation that it submits to the SLP.

Beneficiary Response

> *The Beneficiary filed its form 471 based upon an estimate of the mean enrollment figures since the school population is in a constant flux. New York State Education Data is generally one year behind current enrollment. The attached January 2017 data indicates there were* ***976*** *students which is a .00306 variance from the form 471 enrollment figures. Therefore this finding is without merit.*

Auditor Response

We understand that student populations may change over the funding period; however, the Beneficiary is responsible for maintaining documentation to support the numbers exactly as reported on its FCC Form 471 application. The January 2017 Enrollment and Eligibility lunch statement supplied with the Beneficiary response also reflected an incorrect student enrollment count. The lunch statement provided a different enrollment number than the enrollment number used on the FCC Form 471. There were four different documents with four different enrollment numbers that were collected during this audit. Additionally, the rules and criteria do not allow for any variance percentages regarding student enrollment numbers and documentation to support those numbers. This is a document retention issue as accurate supporting documentation was not retained by the Beneficiary to support the number reflected on the approved FCC Form 471. According to USAC's documentation retention requirements and 47 C.F.R. § 54.516(a)(2), "All applicants and service providers are required to retain receipt and delivery records relating to pre-bidding, bidding, contracts, application process, invoices, provision of services, and other matters relating to the administration of universal service for a period of at least ten years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request." The Beneficiary did not respond to the document retention issue detailed in this finding. As a result, our position regarding the finding does not change.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.504 (2015)	*Filing of the 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.*
2	47 C.F.R. §54.505 (2015)	*Discounts:* *Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.*

COTTON & COMPANY LLP

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

Universal Service
Administrative Co.

The New Life Child Development Center

Limited Review Audit on Compliance with the Federal Universal Service Fund Schools and Libraries Support Mechanism Rules

USAC Audit No. SL2017LR015

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EXECUTIVE SUMMARY

May 9, 2018

Sonia Vera, Director
The New Life Child Development Center
295 Woodbine St
Brooklyn, NY 11237

Dear Ms. Vera:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of The New Life Child Development Center (Beneficiary), Billed Entity Number (BEN) 16069276, using regulations and orders governing the federal Universal Service 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 limited review 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, data used to calculate the discount percentage and 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 three detailed audit findings (Findings) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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,

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 (A)	Overlapping Recovery or Commitment Adjustment[1] (B)	Recommended Recovery	Recommended Commitment Adjustment (A) - (B)
Finding #1: 47 C.F.R. § 54.520(c)(1)(i) – Failure to Install a Technology Protection Measure The Beneficiary did not provide any documentation to demonstrate that a Technology Protection Measure was in use during Funding Year 2016.	$73,397	$0	$0	$73,397
Finding #2: 47 C.F.R. § 54.516(a)(1) – Lack of Documentation – Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students The Beneficiary did not provide documentation to demonstrate that (a) only eligible students were identified in its FCC Form 471; (b) a cost allocation methodology was used to remove ineligible students from its request for Schools and Libraries Program (SLP) support; and (c) the services requested and committed by SLP were only for eligible students.	$5,170	$4,771	$0	$399
Finding #3: 47 C.F.R. § 54.505(b)(1) – Inadequate Discount Calculation Process – Documentation Did Not Match Amounts Reported on the FCC Form 471 The documentation provided by the Beneficiary does not support the enrollment and National School Lunch Program amounts used in the Beneficiary's FCC Form 471.	$0	$0	$0	$0
Total Net Monetary Effect	$78,567	$4,771	$0	$73,796

[1] If a finding is subsequently waived via appeal, any overlapping recovery or commitment adjustment with that finding will be recovered or commitment adjusted with the remaining findings.

USAC MANAGEMENT RESPONSE

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

USAC directs the Beneficiary to USAC's website under Reference Area for "Children's Internet Protection Act" available at (https://www.usac.org/sl/applicants/step05/cipa.aspx), "Document Retention" available at (https://www.usac.org/sl/tools/document-retention.aspx), "Eligibility Table for Non-Traditional Education" available at (https://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx), and "Applying for Discounts" available at (https://www.usac.org/sl/applicants/step03/discounts.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).

Funding Request Number	USAC Commitment Adjustment Amount
1699132363	$73,397
1699132376	$399
Total	**$73,796**

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 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internet Access	$73,397	$0
Voice	$6,140	$0
Total	**$79,537**	**$0**

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 two Funding Request Numbers (FRNs). IAD selected the two FRNs, which represent $79,537 of the funds committed and $0 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 application submitted by the Beneficiary.

BACKGROUND
The Beneficiary is a private school with toddler, preschool, and school age programs located in Brooklyn, New York that serves over 400 students.

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 SLP funds were or will be used in accordance with the Rules. IAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive SLP funds. IAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

IAD obtained and examined documentation to determine whether the Beneficiary complied with the Schools and Libraries Program Children's Internet Protection Act (CIPA) requirements. Specifically, IAD obtained and evaluated the Beneficiary's Internet Safety Policy. IAD obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

B. Competitive Bid Process
IAD used inquiry to determine that no bids were received for the requested services. 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 a contract with the selected service provider. IAD evaluated the services requested and purchased for cost-effectiveness as well.

C. Site Visit
IAD performed a site visit to evaluate the location and use of services to determine whether it was delivered and installed, located in eligible facilities, and utilized in accordance with the Rules. IAD evaluated whether the Beneficiary

had the necessary resources to support the services for which funding was requested. IAD also evaluated the services purchased by the Beneficiary to determine whether funding was and/or will be used in an effective manner.

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.520(c)(1)(i) – Failure to Install a Technology Protection Measure

CONDITION

IAD requested documentation to determine whether the Beneficiary complied with the Children's Internet Protection Act (CIPA) requirements, including the demonstration that a Technology Protection Measure (TPM) was in use during Funding Year 2016 including, but not limited to, Internet filter logs that could demonstrate websites were blocked or service provider bills that could demonstrate the purchase and installation of a TPM, to determine whether the Beneficiary had a TPM that protects against Internet access by adults and minors to visual depictions that are obscene, child pornography, or harmful to minors for FRN 1699132363. The Beneficiary did not provide any documentation to demonstrate that a TPM was in use during Funding Year 2016.

The Beneficiary verbally informed IAD that it did not believe a TPM is necessary because the computers are not used by the students and only teachers have access to the Internet. In addition, the Beneficiary verbally stated that the purchase of a TPM would be cost prohibitive given the limited access to the Internet by minors and students. However, pursuant to 47 C.F.R. § 54.520, the Internet safety policy "must include a technology protection measure that protects against Internet access by both **adults** [emphasis added] and minors to visual depictions that are obscene, child pornography, or, with respect to use of the computers by minors, harmful to minors." Because the Beneficiary did not purchase and install a TPM, the Beneficiary is not compliant with the Rules.

CAUSE

The Beneficiary did not demonstrate a sufficient knowledge of the Rules governing the Children's Internet Protection Act (CIPA) requirements, including the purchase and installation of a TPM. The Beneficiary has a limited number of administrative staff and, although the Beneficiary utilizes a consultant for its SLP application and pre-commitment processes, the Beneficiary does not have a designated employee to maintain a thorough knowledge of the Rules to ensure complete compliance throughout the SLP post-commitment process.

EFFECT

The monetary effect of this finding is $73,397. This amount represents the total funds committed by SLP for FRN 1699132363.

RECOMMENDATION

IAD recommends USAC management issue a downward commitment adjustment for $73,397. The Beneficiary must install a TPM and implement policies and procedures to ensure it retains adequate records related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least ten years after the last day of service in a particular funding year. Further, IAD recommends the Beneficiary visit USAC's website at http://www.usac.org/sl/about/outreach/default.aspx to become familiar with the training and outreach available from SLP and ensure it has designated personnel on staff knowledgeable of the Rules to monitor compliance with the Rules.

BENEFICIARY RESPONSE

The individual you spoke to at the on-site visit was misinformed and not responsible for any operational technology and therefore unable to provide an informed response. Positive Computers provided MIB services from July 2015-April 2016 and certifies that OPEN DNS was fully installed and functional during that period of time. Any subsequent IT vendor utilized this passive content filtering technology that by definition is automatically updated by OPEN DNS until such time as it was replaced. Documentation to that effect will be produced upon request. See attached certification letter.

Therefore the downward commitment adjustment is unfounded and unusually punative [*sic*].

IAD RESPONSE

In its response, the Beneficiary states that "[t]he individual [IAD] spoke to at the on-site visit was misinformed and not responsible for any operational technology and therefore unable to provide an informed response." During the site visit, IAD made its inquiries with the Beneficiary's Director and consultant and the Beneficiary did not indicate there were any other individuals responsible for operational technology that could provide a more informed response.

In addition, the Beneficiary states that "OPEN DNS was fully installed and functional during [July 2015 to April 2016 and]… [a]ny subsequent IT vendor utilized this passive content filtering technology that by definition is automatically updated by OPEN DNS until such time as it was replaced." Upon receiving the Beneficiary's response, IAD requested documentation to determine whether a subsequent IT vender utilized the content filtering technology. The Beneficiary provided a letter from Tony Vera on letterhead for Tech Start Computer Services. In the letter, Mr. Vera describes the services provided by his company, which included "[m]anage the network and the content filter through open DNS." However, no additional documentation demonstrating the management of the content filter was provided. IAD attempted to contact Mr. Vera on numerous occasions to request additional documentation, including, but not limited to, a content filter log, notifications of Open DNS updates, content filter renewals, or other substantive documentation. Mr. Vera did not respond to IAD's calls.

IAD attempted to obtain a further understanding of Tech Start Computer Services and to determine whether the company routinely provides the services described in the letter by conducting Internet research. IAD was unable to locate any material on the Internet for a company titled Tech Start Computer Services. In addition, IAD researched the address listed on the letterhead and could only identify a building at the site listed on the Internet as available for lease.

Pursuant to 47 C.F.R. § 54.702(n), IAD must conduct audits of beneficiaries in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires auditors to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions.[2] In assessing the appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable.[3] GAGAS also requires auditors to exercise professional judgment, which includes exercising reasonable care and professional skepticism.[4] Further, GAGAS requires auditors to consider the risk level of each assignment, including the risk that auditors may arrive at an improper conclusion.[5] IAD exercised professional judgment and considered the risk that IAD may come to an improper conclusion if it accepts the letter from Tech Start Computer Services because this information was not disclosed during the several attempts for documentation made throughout the audit. Because of the concerns discussed above, IAD does not consider the letter to be sufficient, appropriate evidence as IAD is unable to conclude that the letter is valid and reliable evidence that a Technology Protection Measure was installed and operational throughout Funding Year 2016.

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

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[2] *See* GAO-12-331G Government Auditing Standards, 6.56.
[3] *Id*. at 6.57.
[4] *Id*. **at 3.61.**
[5] *Id*. at 3.67.

Finding #2: 47 C.F.R. § 54.516(a)(1) – Lack of Documentation – Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students

CONDITION

IAD made inquries and requested documentation to determine whether the students listed on the Beneficiary's FCC Form 471 were eligible to receive SLP support for FRNs 1699132363 and 1699132376. The Beneficiary operates a child care and Head Start facility, with programs for toddlers; preschool; and school age children, including after-school care.[6] The Beneficiary's toddler program includes children ages two to three.[7] As indicated in the *Eligibility Table for Non-Traditional Education* on USAC's website, "Head Start services for children less than three years old are not eligible for discounts and must be cost allocated, unless otherwise noted."[8] In addition, as determined by New York state law, Head Start is only eligible for SLP support if it is part of a public school district or a stand-alone facility recognized by New York.[9] IAD examined the list of Head Start locations recognized by the state of New York and New Life Child Development Center was not on the list.[10]

IAD conducted a site visit to the Beneficiary's location and observed the Beneficiary's programs for toddlers, which included classrooms for two and three year olds; preschool; and school age children. Since children less than three years old are not eligible for SLP support and the Beneficiary is not recognized as an eligible Head Start location, only the toddlers three years of age, preschool students, and school age children are eligible for SLP support.[11] The Beneficiary did not provide documentation to demonstrate that (a) only eligible students were identified in its FCC Form 471; (b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and (c) the services requested and committed by SLP were only for eligible students. Thus, the Beneficiary and IAD is unable to determine the number of students that were ineligible for SLP support.

IAD is required to conduct its audits in accordance with GAGAS,[12] which require IAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.[13] Because the Beneficiary did not provide documentation to demonstrate that (a) only eligible students were identified in its FCC Form 471; (b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and (c) the services requested and committed by SLP were only for eligible students, IAD is unable to conclude that the Beneficiary properly allocated the costs of services requested between eligible and ineligible students.

CAUSE

The Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records were properly retained to demonstrate that the costs of services requested for SLP support were properly allocated between eligible and ineligible students. The Beneficiary did not demonstrate that it had conducted the appropriate research of the Rules or researched USAC's website to obtain the knowledge necessary for determining whether its students are eligible for SLP support. The Beneficiary did not demonstrate a sufficient knowledge of the Rules governing the allocation of services between eligible and ineligible students.

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[6] *See* New Life Child Development Center's website at http://www.newlife-nyc.org/index-6.html.

[7] *See* New Life Child Development Center's website at http://www.newlife-nyc.org/index-4.html.

[8] *See* USAC's website at http://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx.

[9] *Id.*

[10] *See* the New York Head Start list at http://www.usac.org/_res/documents/sl/pdf/head-start/NY-HeadStart-list.pdf.

[11] 47 C.F.R. § 54.501(a)(1) (2015).

[12] 47 C.F.R. § 54.702(n) (2015).

[13] *See* U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.").

EFFECT

The monetary effect of this finding is $79,537. This amount represents the total funds committed by SLP for the services requested and not allocated between eligible and ineligible students, as summarized below:

FRN	Amount
1699132363	$73,397
1699132376	$6,140
Total	$79,537

RECOMMENDATION

IAD recommends USAC management issue a downward commitment adjustment for $79,537. The Beneficiary must implement controls and procedures to ensure it retains adequate records related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least ten years after the last day of service in a particular funding year. In addition, the Beneficiary must properly allocate the costs of services requested and invoiced to SLP between eligible and ineligible students to ensure that SLP support is committed and disbursed for only eligible students. IAD also recommends the Beneficiary take advantage of the various outreach efforts provided by SLP, including the annual Fall Applicant training, webinars, newsletters, etc. The Beneficiary can learn more about the Rules governing eligible students and locations on USAC's website at http://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/default.aspx.

BENEFICIARY RESPONSE

The auditor's assertion that there was inadequate documentation to distinguish between eligible and ineligible students is incorrect. [D]ocumentation was provided [(]SITE INFO[)] [by the Beneficiary with this response]. In addition, a cost allocation table has also been provided. Overall the total number of ineligible students does not exceed 6% and only in two locations. The suggestion to have a 100% downward commitment adjustment is not supported by the data and is unusually punitive.

IAD RESPONSE

IAD examined the documentation provided with the Beneficiary's response and concurs with the Beneficiary's response that this finding no longer warrants a 100 percent downward commitment adjustment. The Beneficiary provided data obtained from the New York State Department of Health along with the Beneficiary's *EarlyLearn Line Item Budget Summary* that identifies 30 ineligible toddler program students and 434 eligible preschool students, which results in 93.5 percent of students being eligible for SLP support. Therefore, IAD has changed its recommended commitment adjustment for the 6.5 percent of ineligible students, as follows:

FRN	Amount Committed	Ineligible Students	Recommended Commitment Adjustment
1699132363	$73,397	6.5%	$4,771
1699132376	$6,140	6.5%	$399
Total	$79,537		$5,170

Finding #3: 47 C.F.R. § 54.505(b)(1) – Inadequate Discount Calculation Process – Documentation Did Not Match Amounts Reported on the FCC Form 471

CONDITION

IAD obtained and examined documentation provided by the Beneficiary to determine whether the Beneficiary properly calculated its discount percentage for FRNs 1699015574, 1699095708 and1699095723. The Beneficiary provided its *Payment*

Data Table / Voucher Worksheet (Voucher Worksheet) for January 2017, which it obtained from the New York State Centers Tracking System. The Voucher Worksheet includes information such as the total free, reduced, and paid meals provided to students during January 2017 as well as total number of students that were projected to be served that month. However, the Voucher Worksheet does not include the number of students eligible for the National School Lunch Program (NSLP). Although the Voucher Worksheet was filed with the state of New York subsequent to submission of its FCC Form 471 on May 26, 2016, and could not have been the document used by the Beneficiary to obtain the enrollment and NSLP figures in its FCC Form 471, the Beneficiary provided the Voucher Worksheet in an effort to support its NSLP eligibility percentage.

In its FCC Form 471, the Beneficiary identified 400 students enrolled and 390 students eligible for NSLP, resulting in a NSLP eligiblity percentage of 98 percent. The Beneficiary's SLP discount rate based on the NSLP eligibility percentage is 90 percent for Category 1 services (excluding voice services), 85 percent for Category 2 services, and 50 percent for voice services. In its Voucher Worksheet, the Beneficiary's costs of meals was $46,681 for free and reduced meals and $46,783 for total meals, resulting in an estimated NSLP eligibility percentage of 99 percent. NSLP eligibility of 99 percent results in the same SLP discount rates as the NSLP eligibility of 98 percent that resulted from the information completed on the Beneficiary's FCC Form 471. Therefore, IAD determined that the Voucher Worksheet provides sufficient information to support the Beneficiary's SLP discount rates for Funding Year 2016. However, because the Voucher Worksheet does not support the enrollment and NSLP amounts used in the Beneficiary's FCC Form 471, the Beneficiary's discount calculation process used for completing its FCC Form 471 was not adequate.

CAUSE

The Beneficiary did not have adequate controls and procedures in place to ensure its FCC Form 471 was complete and accurate. The Beneficiary relied on the New York State Centers Tracking System to maintain the amounts that would be used by the Beneficiary; but, the Beneficiary could not explain how to reconcile the amounts maintained by the New York State Centers Tracking System to the Beneficiary's FCC Form 471.

EFFECT

There is no monetary effect for this finding because although the Voucher Worksheet does not support the total enrollment and NSLP amounts used in the Beneficiary's FCC Form 471, IAD was able to recalculate the discount percentage using the Voucher Worksheet and determined that the Beneficiary's discount percentage remained the same. However, by not ensuring documentation is maintained for the actual amounts listed in the Beneficiary's FCC Form 471, there is an increased risk that the Beneficiary may not be able to support its SLP discount rate.

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure that a sufficient review of the underlying documentation is performed to substantiate the information reported on the FCC Form 471, prior to submitting the forms to SLP.

BENEFICIARY RESPONSE

[The Beneficiary chose not to respond to this finding.]

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.516(a)(1) (2015).	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.
#1	47 C.F.R. § 54.501(a)(1) (2015).	Only schools meeting the statutory definition of "elementary school" or "secondary school" as defined in §54.500 of these subpart, and not excluded under paragraphs (a)(2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.
#1	47 C.F.R. § 54.702(n) (2015).	When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards.
#2	47 C.F.R. § 54.520(c)(1)(i) (2015).	The Internet safety policy adopted and enforced pursuant to 47 U.S.C. 254(h) must include a technology protection measure that protects against Internet access by both adults and minors to visual depictions that are obscene, child pornography, or, with respect to use of the computers by minors, harmful to minors. The school must enforce the operation of the technology protection measure during use of its computers with Internet access, although an administrator, supervisor, or other person authorized by the certifying authority under paragraph (a)(1) of this section may disable the technology protection measure concerned, during use by an adult, to enable access for bona fide research or other lawful purpose. This Internet safety policy must also include monitoring the online activities of minors. Beginning July 1, 2012, schools' Internet safety policies must provide for educating minors about appropriate online behavior, including interacting with other individuals on social networking Web sites and in chat rooms and cyberbullying awareness and response.
#3	47 C.F.R. § 54.505(b)(1) (2015).	For schools and school districts, the level of poverty shall be based on the percentage of the student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism. School districts shall divide the total number of students eligible for the National School Lunch Program within the school district by the total number of students within the school district to arrive at a percentage of students eligible. This percentage rate shall then be applied to the discount matrix to set a discount rate for the supported services purchased by all schools within the school district. Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount

Finding	Criteria	Description
		percentage rate based on the total number of students under the control of the central administrative agency.

Universal Service
Administrative Co.

All My Children Daycare and Nursery School

Limited Review Audit on Compliance with the Federal Universal Service Fund Schools and Libraries Support Mechanism Rules

USAC Audit No. SL2017LR016

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Universal Service
Administrative Co.

EXECUTIVE SUMMARY

May 31, 2018

Sara Rubinstein, Director
All My Children Daycare and Nursery School
420 Lefferts Avenue
Brooklyn, NY 11225

Dear Ms. Rubinstein:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of All My Children Daycare and Nursery School (Beneficiary), Billed Entity Number (BEN) 16072177, using the regulations and orders governing the federal Universal Service 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, data used to calculate the discount percentage and 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 three detailed audit findings (Findings) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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,

for 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	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.516(a)(1) - Lack of Documentation - Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students. The Beneficiary did not provide documentation to demonstrate that a) only eligible students were identified in its FCC Form 471; b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and c) the services requested and committed by SLP were only for eligible students.	$18,927	$18,927	$18,927
Finding #2: 47 C.F.R. § 54.516(a)(1) - Lack of Documentation to Demonstrate Competitive Bidding Was Fair and Open. The Beneficiary did not provide documentation to demonstrate that it carefully considered all bids received as indicated on its FCC Form 471.	$0	$0	$0
Finding #3: 47 C.F.R. § 54.505(b)(1) Inadequate Discount Calculation Process - Documentation Did Not Match Amounts Reported on the FCC Form 471. The documentation provided by the Beneficiary does not support the enrollment and NSLP amounts used in the Beneficiary's FCC Form 471.	$0	$0	$0
Total Net Monetary Effect	$18,927	$18,927	$18,927

USAC MANAGEMENT RESPONSE

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

USAC directs the Beneficiary to USAC's website under Reference Area for "Eligibility Table for Non-Traditional Education" available at (https://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx), "Competitive Bidding" available at (https://www.usac.org/sl/applicants/step01/default.aspx), "Document Retention" available at (https://www.usac.org/sl/tools/document-retention.aspx), and "Applying for Discounts" available at (https://www.usac.org/sl/applicants/step03/discounts.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).

	FRN 1699015574	USAC Recovery Action
Finding #1	$18,927	$18,927

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 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internet Access	$142,290	$0
Voice	$27,982	$0
Total	**$170,272**[1]	**$0**

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

The committed total represents two FCC Form 471 applications with six Funding Request Numbers (FRNs). IAD selected three FRNs, which represent $113,697 of the funds committed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a not-for-profit organization that operates a day care center and a nursery school, including Universal Pre-Kindergarten, in the borough of Queens, New York that serves nearly 400 students.

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 SLP funds were or will be used in accordance with the Rules. IAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive SLP funds. IAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

IAD obtained and examined documentation to determine whether the Beneficiary complied with the Schools and Libraries Program Children's Internet Protection Act (CIPA) requirements. Specifically, IAD obtained and evaluated the Beneficiary's Internet Safety Policy. IAD obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

[1] Subsequent to the date of the commencement of the audit, the Beneficiary submitted a request to cancel three of the FRNs, which SLP approved and reduced the committed funds for those FRNs to $0. As of the date of this audit report, the total amount remaining committed is $27,982. The FRNs IAD selected to perform the procedures enumerated below represent $18,927 of the revised committed amount.

B. Competitive Bid Process

IAD obtained and examined documentation to determine whether the Beneficiary properly selected a service provider that provided eligible services and price of the eligible services and goods 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 examined the service provider contracts to determine whether they were properly executed. IAD evaluated the services requested and purchased for cost effectiveness as well.

C. Site Visit

IAD performed a site visit to evaluate the location and use of services to determine whether it was delivered and installed, located in eligible facilities, and utilized in accordance with the Rules. IAD evaluated whether the Beneficiary had the necessary resources to support the services for which funding was requested. IAD also evaluated the services purchased by the Beneficiary to determine whether funding was and/or will be used in an effective manner

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. 54.516(a)(1) - Lack of Documentation – Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students

CONDITION

IAD made inquiries and requested documentation to determine whether the students listed on the Beneficiary's FCC Form 471 were eligible to receive SLP support for FRNs 1699015574, 1699095708 and 1699095723. The Beneficiary operates a day care center and a nursery school, including programs such as Universal Pre-Kindergarten (Pre-K); Head Start; and infant, toddler, and nursery programs.[2] As indicated in the *Eligibility Table for Non-Traditional Education* on USAC's website, "Head Start services for children less than three years old are not eligible for discounts and must be cost allocated, unless otherwise noted."[3] In addition, as determined by New York state law, Head Start is only eligible for SLP support if it is part of a public school district or a stand-alone facility recognized by New York.[4] IAD examined the list of Head Start locations recognized by the state of New York and All My Children Daycare & Nursery School was not included in the list.[5]

IAD conducted a site visit to the Beneficiary's location and observed the Beneficiary's Universal Pre-Kindergarten (Pre-K); Head Start; and infant, toddler and nursery programs. Since children less than three years old are not eligible for SLP support and the Beneficiary is not recognized as an eligible Head Start location, only the Universal Pre-K students are eligible for SLP support.[6] To substantiate its enrollment, the Beneficiary provided a *Child & Adult Care Centers Claim For Reimbursement Summary for December 2016*. However, the claim for reimbursement form does not identify actual student enrollment nor does it indicate the different child programs offered by the Beneficiary. The Beneficiary did not provide documentation to demonstrate that a) only eligible Universal Pre-K students were identified in its FCC Form 471; b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and c) the services requested and committed by SLP were only for eligible students.

IAD is required to conduct its audits in accordance with Generally Accepted Government Auditing Standards (GAGAS),[7] which require IAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.[8] Because the Beneficiary did not provide documentation to demonstrate that a) only eligible students were identified in its FCC Form 471; b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and c) the services requested and committed by SLP were only for eligible students, IAD is unable to conclude that the Beneficiary properly allocated the costs of services requested between eligible and ineligible students.

CAUSE

The Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records were properly retained demonstrating that the costs of services requested for SLP support were properly allocated between eligible and ineligible students. Further, the Beneficiary did not demonstrate a sufficient knowledge of the Rules governing the allocation of services between eligible and ineligible students.

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[2] *See* All My Children Daycare & Nursery School's website at http://allmychildrendaycare.com/programs/.

[3] *See* USAC's website at http://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx.

[4] *Id.*

[5] *See* the New York Head Start list at http://www.usac.org/_res/documents/sl/pdf/head-start/NY-HeadStart-list.pdf.

[6] 47 C.F.R. § 54.501(a)(1) (2015).

[7] 47 C.F.R. § 54.702(n) (2015).

[8] *See* U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.").

EFFECT

Subsequent to IAD's inquiries and requests for documentation, the Beneficiary verbally informed IAD that two service providers had decided that they would no longer provide the services; thus, the Beneficiary submitted a request to SLP to cancel FRNs 1699095708 and 1699095723, which SLP approved. Given the committed amounts for FRNs 1699095708 and 1699095723 were reduced to $0, there is no monetary effect for these FRNs. The monetary effect of this finding is $18,927. This amount represents the total funds committed by SLP for the services requested and not allocated between eligible and ineligible students for FRN 1699015574.

RECOMMENDATION

IAD recommends USAC management seek recovery of and issue a downward commitment adjustment for $18,927 for FRN 1699015574. The Beneficiary must implement policies and procedures to ensure it retains adequate records related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least ten years after the last day of service in a particular funding year. In addition, the Beneficiary must properly allocate the costs of services requested and invoiced to SLP between eligible and ineligible students to ensure that SLP support is committed and disbursed for only eligible students. IAD also recommends the Beneficiary take advantage of the various outreach efforts provided by SLP, including the annual Fall Applicant training, webinars, newsletters, etc. The Beneficiary can learn more about the Rules governing eligible students and locations on USAC's website at http://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/default.aspx.

BENEFICIARY RESPONSE

The agency was under the impression that students above the age of three were by definition eligible for E-rate. An analysis of the utilization of the service indicates that a complete recovery is unwarranted.

All My Children Cost Allocation 2016

FRN	Site	Full Cost	All students	# ineligible	% ineligible	Full Cost	Cost Allocated For Eligible
1699015574	AMC 1	2103	61	42	68.85%	2103	$655.03
	AMC 2	2103	30	18	60.00%	2103	$841.20
	AMC 4	2103	113	87	76.99%	2103	$483.88
	AMC 6	2103	73	57	78.08%	2103	$460.93
	AMC 8	2103	103	71	68.93%	2103	$653.36
	AMC 10	2103	152	122	80.26%	2103	$415.07
	AMC 11	2103	89	62	69.66%	2103	$637.99
	Mayfield	2103	88	51	57.95%	2103	$884.22
	69th	2103	46	28	60.87%	2103	$822.91
		18927	755	538			$5,031.67

IAD RESPONSE

In its response, the Beneficiary provided a cost allocation table to allocate the percent of the cost of services delivered only to eligible students. Subsequent to receipt of the Beneficiary's response, IAD made requests to obtain the documentation used to create the cost allocation table above. However, the Beneficiary did not respond to IAD's requests. Therefore, because IAD is unable to conclude on whether the cost allocation table is accurate, IADs' position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.516(a)(1) - Lack of Documentation to Demonstrate Competitive Bidding Process Was Fair and Open

CONDITION

IAD requested documentation to determine whether the competitive bidding process undertaken to select service providers was fair and open[9], to determine whether all bids were considered and that the Beneficiary selected the most cost-effective service provider using price of eligible goods and services as the primary factor[10] for FRN 1699095723. In its FCC Form 471, the Beneficiary stated that two bids were received for FRN 1699095723. However, during the site visit of the Beneficiary's location, the Beneficiary verbally informed IAD that no bids were received. In addition, the Beneficiary did not provide documentation to demonstrate that bids were received and that a competitive bidding evaluation process was performed. The Beneficiary verbally informed IAD during the site visit that it requested services from Y&S Technologies, a service provider they had used for their Managed Internal Broadband Services (MIBS) in the previous funding year, for FRN 1699095723.

IAD is required to conduct its audits in accordance with Generally Accepted Government Auditing Standards (GAGAS),[11] which require IAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.[12] Because the Beneficiary did not provide documentation to demonstrate that it carefully considered all bids received as indicated on its FCC Form 471, IAD is unable to conclude that the Beneficiary's competitive bidding process was fair and open.

CAUSE

The Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records were properly retained demonstrating that bid evaluations were performed for bids received. The Beneficiary's FCC Form 470 instructed service providers to fax bids to the Beneficiary's consultant. The Beneficiary's consultant verbally informed IAD that any bids received are then forwarded to the Beneficiary to complete the competitive bidding process. Neither the Beneficiary, nor the Beneficiary's consultant, had documentation for the bids received.

EFFECT

Subsequent to IAD's inquiries and requests for documentation, the Beneficiary verbally informed IAD that Y&S Technologies had decided it would no longer provide the services. Thus, the Beneficiary submitted a request to SLP to cancel FRN 1699095723, which SLP approved. Given the committed amount for FRN 1699095723 was reduced to $0, there is no monetary effect associated with this finding.

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure it retains documentation to demonstrate that it carefully considered all bid proposals and selected the most cost-effective service offering, using price of the eligible goods and services as the primary factor considered.

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[9] 47 C.F.R. § 54.503(a) (2015).
[10] 47 C.F.R. § 54.504(a)(1)(ix) (2015).
[11] 47 C.F.R. § 54.702(n) (2015).
[12] *See* U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.").

BENEFICIARY RESPONSE
The [FCC] Form 471 contained an M[inisterial] & C[lerical] error since there was only one bid for the above cited FRN's [sic] and there was confusion between cable service & fiber services. The other services had no formal bids since they were on a month – to – month basis which USAC in 2018 clarified that these services should be considered a formal bid. This explains the comments by the Beneficiary during the onsite review.

IAD RESPONSE
In its response, the Beneficiary states that "[t]he [FCC] Form 471 contained an M & C error since there was only one bid for [FRN 1699095723]…." However, since the Beneficiary did not memorialize the receipt of only one bid and its decision to select services from the sole bidder, IAD is unable to conclude whether the FCC Form 471 contained a ministerial and clerical error by stating two bids had been received for FRN 1699095723. Therefore, IAD's position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.505(b)(1) - Inadequate Discount Calculation Process – Documentation Did Not Match Amounts Reported on the FCC Form 471

CONDITION
IAD obtained and examined documentation provided by the Beneficiary to determine whether the Beneficiary properly calculated its discount percentage for FRNs 1699015574, 1699095708 and1699095723. The Beneficiary provided its *Child & Adult Care Centers Claim For Reimbursement Summary for December 2016* (Claim Summary), which was on file with the New York State Department of Health (NYDOH). The Claim Summary includes information such as the total free, reduced, and paid meals provided to students during December 2016. However, the Claim Summary does not include the number of students enrolled with the Beneficiary and it also does not include the total number of students eligible for the National School Lunch Program (NSLP).[13] Although the Claim Summary was filed with NYDOH subsequent to submission of its FCC Form 471 on March 11, 2016, and could not have been the document used by the Beneficiary to obtain the enrollment and NSLP figures in its FCC Form 471, the Beneficiary provided the Claim Summary to the auditor in an effort to support its NSLP eligibility percentage.

In its FCC Form 471, the Beneficiary identified 391 students enrolled and 295 students eligible for NSLP, resulting in a NSLP eligiblity percentage of 75 percent. The Beneficiary's SLP discount rate based on the NSLP eligibility percentage is 90 percent for Category 1 services (exluding voice services), 85 percent for Category 2 services, and 50 percent for voice services. In its Claim Summary, the Beneficiary provided 1,788 free and reduced lunches and 2,171 total lunches, resulting in an estimated NSLP eligibility percentage of 82 percent. NSLP eligibility of 82 percent results in the same SLP discount rates as completed on the Beneficiary's FCC Form 471. Therefore, IAD determined that the Claim Summary provides sufficient information to support the Beneficiary's SLP discount rates for Funding Year 2016. However, because the Claim Summary does not support the enrollment and NSLP amounts used in the Beneficiary's FCC Form 471, the Beneficiary's discount calculation process used for completing its FCC Form 471 was not adequate.

CAUSE
The Beneficiary did not have adequate controls and procedures in place to ensure its FCC Form 471 was complete and accurate. The Beneficiary relied on the New York State Department of Health to maintain the amounts provided by the Beneficiary and could not explain how to reconcile the amounts to the FCC Form 471.

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[13] 47 C.F.R. § 54.516(a)(1) (2015).

EFFECT

There is no monetary effect for this finding because although the Claim Summary does not support the enrollment and NSLP amounts used in the Beneficiary's FCC Form 471, IAD was able to recalculate the discount percentage using the Claim Summary and determined the Beneficiary's discount percentage remained the same. However, by not ensuring documentation is maintained for the actual amounts listed in the Beneficiary's FCC Form 471, there is an increased risk that the Beneficiary may not be able to support its SLP discount rate.

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure that a sufficient review of the underlying documentation is performed to substantiate the information reported on the FCC Form 471, prior to submitting the forms to SLP.

BENEFICIARY RESPONSE

Private agencies have fluid populations who[se] enrollment data changes from month to month. Online representations by different third-party agencies often reflect data that is considerably aged.

IAD RESPONSE

IAD concurs with the Beneficiary's response that "online representations by different third-party agencies often reflect data that is considerably aged." Thus, it is imperative that the Beneficiary maintain the documentation substantiating the figures entered in its FCC Form 471 and not rely on third-parties to maintain the documentation. Since it is the recipient of SLP support, the Beneficiary is responsible for retaining adequate records related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least ten years after the last day of service in a particular funding year. Therefore, IAD's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1, 2, 3	47 C.F.R. § 54.516(a)(1) (2015)	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.
#1	47 C.F.R. § 54.501(a)(1) (2015)	Only schools meeting the statutory definition of "elementary school" or "secondary school" as defined in 54.500 of this subpart, and not excluded under paragraphs (a)(2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.
#1, 2	47 C.F.R. § 54.702(n) (2015)	When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards.
#2	47 C.F.R. § 54.503(a) (2015)	All entities participating in the schools and libraries universal service support program must conduct a fair and open competitive bidding process, consistent with all requirements set forth in this subpart.
#2	47 C.F.R. § 54.504(a)(1)(ix) (2015)	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.
#3	47 C.F.R. § 54.505(b)(1) (2015)	For schools and school districts, the level of poverty shall be based on the percentage of the student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism. School districts shall divide the total number of students eligible for the National School Lunch Program within the school district by the total number of students within the school district to arrive at a percentage of students eligible. This percentage rate shall then be applied to the discount matrix to set a discount rate for the supported services purchased by all schools within the school district. Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.