



Schools and Libraries Committee

Audit Briefing Book

Monday, April 29, 2019

Universal Service Administrative Company Offices

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

Washington, D.C. 20005

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: January 2, 2019 – January 31, 2019

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Learning Works Charter School Attachment A	1	<ul style="list-style-type: none"> • <u>Inadequate Competitive Bidding Evaluation.</u> The Beneficiary did not evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor. 	\$39,494	\$4,931	\$4,931	\$4,931	Y
Cicero School District 99 Attachment B	0	<ul style="list-style-type: none"> • Not applicable. 	\$180,000	\$0	\$0	\$0	N
Cardinal Cushing Center Attachment C	2	<ul style="list-style-type: none"> • No significant findings. 	\$0**	\$0	\$0	\$0	N
Total	3		\$219,494	\$4,931	\$4,931	\$4,931	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” amount if there are findings that do not warrant a recommended recovery or there are multiple findings within an audit that have overlapping exceptions between them.

** While this beneficiary did not receive Schools and Libraries disbursements for the audit period, the beneficiary received commitments, which were audited as a means to identify noncompliance prior to disbursement and prevent improper payments.



Learning Works Charter School

Limited Review Audit on Compliance with the Federal Universal Service
Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR075



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EXECUTIVE SUMMARY

October 23, 2018

Mikala L. Rahn, PhD, President
Learning Works Charter School
90 North Daisy St.
Pasadena, CA 91107

Dear Ms. Rahn:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Learning Works Charter School (Beneficiary), Billed Entity Number (BEN) 16057509, 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. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

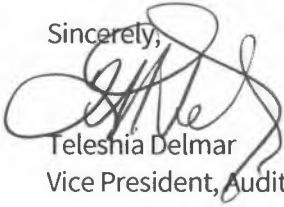
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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 AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD'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 Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Teleshia Delmar', written over the printed name.

Teleshia Delmar
Vice President, Audit and Assurance 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 Result	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.511(a) - Inadequate Competitive Bidding Evaluation. The Beneficiary did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor.	\$4,931	\$4,931	\$4,931
Total Net Monetary Effect	\$4,931	\$4,931	\$4,931

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. During the recovery review process, if there are other FRNs that fall under this competitive bidding finding there may be additional recoveries.

USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC offers a webcast to help applicants understand the competitive bidding process available at (https://goto.webcasts.com/starthere.jsp?ei=1203188&tp_key=c4fd271556). USAC also 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>). Additional information on E-rate rule compliance is available in the USAC Online Learning Library available at (<https://www.usac.org/sl/about/outreach/online-learning.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>).

Recovery Amount	FRN 1699126688
Finding #1	\$4,931

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
Basic Maintenance of Internal Connections	\$5,389	\$0
Internet Access	\$54,041	\$34,563
Voice	\$24,312	\$4,931
Total	\$83,742	\$39,494

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 ten Funding Request Numbers (FRNs). AAD selected five FRNs, which represent \$57,124 of the funds committed and \$28,272 of the funds disbursed 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 charter school located in Pasadena, California that serves over 350 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD 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. AAD used inquiry and inspection of documentation to determine whether the Beneficiary was eligible to receive SLP funds. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

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

B. Competitive Bid Process

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

C. Invoicing Process

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

D. Beneficiary Location

AAD used inquiry to determine whether the services were located in eligible facilities and utilized in accordance with the Rules. AAD evaluated whether the Beneficiary had the necessary resources to support the services for which funding was requested. AAD also evaluated the services purchased by the Beneficiary for cost effectiveness to determine whether funding was and/or will be used in an effective manner.

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

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

CONDITION

AAD obtained and examined documentation, including the service provider bids 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 1699126688. The Beneficiary received and evaluated bid proposals submitted by 8X8, Inc. (8X8); Alteva; AT&T; Blueprint Technologies (Blueprint); Gigakom, Jive Communications, Inc. (Jive); Masergy; Nextiva; and Proficient Telecom (Proficient) for the Voice over Internet Protocol (VoIP) services requested for FRN 1699126688. AAD determined through inquiries made with the Beneficiary that the Beneficiary did not consider price as the primary factor in accordance with the Rules as the Beneficiary included ineligible staff costs to set up and maintain the network and non-cost factors such as flexibility and quality of support within the price criterion.

AAD examined the Beneficiary's bid matrices and determined that the Beneficiary's selection criteria included (1) price, (2) completeness/quality of proposal, (3) experience/familiarity with school, (4) service quality, and (5) technical expertise/recommendation. The Beneficiary scored the bids as follows, with the highest score representing the best score:

	Total Cost Per Month Quoted in Bid	Price	Completeness of Proposal	Previous Experience	Service Quality	Technical Expertise	Total
<i>Maximum Points Available</i>		30	15	15	20	20	100
8X8	\$949	15	6	6	12	12	51
Alteva	\$1,065	12	6	6	12	12	48
AT&T	\$820	15	6	6	12	12	51
Blueprint	\$0	6	10.5	9	16	14	55.5
Gigakom	\$658	27	3	9	8	12	59
Jive	\$826	27	13.5	12	16	18	86.5
Masergy	\$733	18	6	6	12	12	54
Nextiva	\$920	15	6	9	12	12	54
Proficient	\$697	24	6	9	12	12	63

Although price appears to be the primary factor (price being assigned 30 points, while the other factors were assigned 15 or 20 points), the Beneficiary informed AAD that, among other things, it considered the "overall value proposition for each service," when awarding points in the price criterion for each service provider.¹ While the Beneficiary may take other factors, including quality of service, into consideration during its bid

¹ Emails to AAD from Kurt Rahn, Communications Director at Learning Works Charter School, and Jane Kratochvil, Beneficiary's Consultant, (Feb. 21, 2018).

evaluation, the Rules require that the price of eligible goods and services must be given more weight than any other single factor. In this case, the Beneficiary considered other factors, such as overall value proposition for each service (i.e. staff cost to set up and maintain the network, flexibility of support, etc.), within the price criterion instead of using only the price of the eligible services within the price criterion.

Further, AAD determined that Jive, the selected service provider, did not submit the lowest cost bid but was awarded the most favorable score² for the price category on the Beneficiary's bid evaluation matrix. Jive's quote of \$826 per month was only the fifth cheapest bid. Jive's score of 27 in the cost criterion was the same or better than Gigakom's score of 27 for a quote of \$658 per month, Proficient's score of 24 for a quote of \$697 per month, Masergy's score of 18 for a quote of \$733 per month, and AT&T's score of 15 for a quote of \$820 per month. Jive's awarded score for price should not be higher than AT&T's score for price, which would reduce Jive's total score. Jive was awarded superior scores in the non-price criteria and the Beneficiary believes Jive was still the most cost-effective solution according to the Beneficiary's criteria, even if the price criterion scores were adjusted. However, the FCC clarified that "although [a beneficiary] argues that the contract awards would have been the same if the price of the ineligible items had been excluded from the [cost] criterion, that alone does not demonstrate compliance with the applicable rule...."³ Therefore, AAD concludes that the Beneficiary did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor.⁴

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the competitive bidding process and selecting the most cost-effective service offering using price of the eligible goods and services as the primary factor. The Beneficiary considered, among other items, staff cost to set up and maintain the network and flexibility of support in the price criterion rather than in its own criterion or combined in a non-price criterion. The Beneficiary did not review the Rules in detail, including the relevant Rules that provided clarification on the competitive bidding requirements and selecting the most cost-effective service offering using price of the eligible goods and services as the primary factor.

EFFECT

The monetary effect of this finding is \$4,931. This amount represents the total funds committed and disbursed by SLP for FRN 1699126688.

RECOMMENDATION

AAD recommends USAC management seek recovery of \$4,931 and issue a downward commitment adjustment to reduce the committed funds to \$0 for FRN 1699126688. The Beneficiary must implement controls and procedures to ensure it carefully considers all bids and selects the most cost-effective service offering using price of eligible goods and services as the primary factor considered, as required by the Rules. The Beneficiary should not include staff cost to set up and maintain the network, flexibility of support, or other non-price factors within the price criterion and instead should use other criterion for this consideration. AAD also

² AAD notes that the most favorable price score was awarded to both Gigakom and Jive. Gigakom submitted the lowest cost bid.

³ *Spokane Order*, para. 4.

⁴ *Ysleta Order*, para. 52.

recommends the Beneficiary examine the Rules to familiarize itself with the Rules governing the competitive bidding process and selecting the most cost-effective service offering.

BENEFICIARY RESPONSE RECEIVED AUG. 22, 2018

The [former] IAD [and henceforth AAD] has made an audit finding that the Beneficiary, Learning Works Charter School (Learning Works) violated the cost-effective requirement set forth in 47 CFR Sec. 54.511(a), and has requested recovery of previously committed funding in the amount of \$4,931.00, along with a reduction of committed funds to \$0 for FRN 1699126688. More specifically, [A]AD determined that Learning Works did not consider price as the primary factor in accordance with the FCC's rules governing the E-rate program, because [A]AD determined that we included ineligible staff costs to set up and maintain the network and non-cost factors such as flexibility and quality of support within the price criterion. [A]AD relies upon Section 47 C.F.R. § 54.511(a) of the Commission's rules and the *Ysleta Order* for the proposition that applicants must evaluate the actual price, *i.e.*, the actual dollar amount. [A]AD also relies on the *Spokane Order* in its finding that Learning Works impermissibly considered ineligible costs in its pricing analysis.

This finding is unwarranted. Learning Works understands how the wording of its responses to [A]AD's questions in this area may have created confusion, and now clarifies that our competitive bidding process complied in all respects with the requirement to choose the most cost-effective option, including using the price of eligible equipment and services as the primary factor in the vendor selection process. We discuss this clarification in greater detail below.

First, we clarify that the bid evaluation process Learning Works followed made the price only of eligible Hosted VOIP services the primary factor against which vendor proposals were scored. On its face, the "Evaluation Summary Sheet" lists the "Cost of E-rate eligible goods and services" as worth 30 points, more than any of the other four evaluation factors. Learning Works received eight bids in response to its [FCC] Form 470 seeking E-Rate eligible VoIP services, all of which were provided to the auditors. There was significant variation among the pricing terms of these eight bids, both in terms of the dollar amount of the prices for the Hosted VoIP Service offering and the level of detail the vendors offered to show what was included in the listed prices.

When we responded to [A]AD's question as to why both proposals scored the same, we were addressing some of the differentiators between Gigakom's proposal and Jive's proposal, all of which were eligible services, but those differentiators were not considered in scoring the pricing factor. Specifically, we understood the cost for set-up and maintenance to be eligible services in the vendor proposals, because this is a Hosted VOIP Service. We never included any school staff costs, other ineligible costs, or non-price factors in assigning vendor scores for the pricing factor.

The [A]AD cites the *Ysleta Order* in their decision and has concluded because the scoring appears inconsistent to the [A]AD, that the evaluation committee must have been weighing other factors into their decision. Specifically, the [A]AD cites paragraph 52 of the *Ysleta Order*. There the beneficiary selected IBM; however as stated in the *Ysleta Order*: "IBM's bid offered only general assurances relating to pricing, such as an explanation that IBM's profit margins 'are consistent with our competitors,' and the statement, 'You are assured that IBM prices will always be market driven, competitive with other consulting firms of similar profile and skill levels, and within normal and customary charges for the type of services provided.' But the prices relevant for our competitive bidding requirements are those of eligible services, rather than the hourly rate for Systems Integration services." *Ysleta Order*, para 52. While the Commission found that Ysleta had not complied, we did. Here, all vendors provided a specific cost for E-Rate eligible services.

As our initial response to [A]AD on this question makes clear, the bid submitted by Jive demonstrates that the cost considered, \$826.00/month, was the cost of E-Rate eligible services only. There was no additional consideration placed on ineligible services when scoring the bid. Therefore, we believe that the [A]AD has reached its conclusion in error. Learning Works specifically responded that the amount used to evaluate the bid from Jive was \$826.00, and this was the monthly cost for E-Rate services only, which was taken directly from the bid documents. Similarly, our earlier response makes clear that we used the eligible monthly recurring costs of \$658.18 in scoring the Gigakom proposal.

We assigned Jive and Gigakom the same pricing score, because we believed that such equal scores most accurately aligned with the pricing in the respective proposals and the needs of our school, and in an attempt to make an “apples-to-apples” comparison between the two bids. Although the Gigakom price was lower, the Gigakom proposal consisted of a single page, showing little more than bare pricing information for “Hosted VOIP.” The Gigakom pricing does not make any mention of included features and functionalities and eligible vendor staffing support costs included in the pricing component, it was impossible to tell from the Gigakom proposal specifically what is included in its pricing, and Gigakom provided no additional supporting information. Jive, in contrast, provided a 60-page proposal that included detailed information on the eligible features and functionalities that it provides with its Hosted VOIP services, including staff resources, specified hardware compatibility, and explicitly stated that, “[a]ll our voice features come standard with every plan.” (Jive Proposal at 20).

Faced with the difficult task of comparing one very detailed bid against another with little detail and a high level of ambiguity, Learning Works assigned both proposals the same score. This decision was based on the Evaluation Committee’s expert evaluation of the uncertainty and risk that Gigakom ultimately would impose additional eligible charges for features, equipment, or other items that Jive had explicitly identified and included in its proposed charges. With little information available to quantify the inevitable additional charges Gigakom would levy, and to avoid unwarranted distortion of the competitive bidding process based on incomplete pricing from Gigakom, Learning Works determined that the most equitable approach would be to award both companies the same score for “Cost of E-rate eligible goods and services” factor.

Second, it is clear from the available records that Learning Works considered only eligible services, and no ineligible costs, in scoring the “Cost of E-rate eligible goods and services” factor. Finding # 1 is therefore incorrect in asserting that Learning Works conducted an inadequate competitive bidding evaluation, relying upon 47 C.F.R. § 54.511(a),⁵ and the FCC *Ysleta Order*⁶ and *Spokane Orders*.⁷

⁵ 47 C.F.R. § 54.511(a) (“*Selecting a provider of eligible services*. 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.”).

⁶ *Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator*, CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, FCC 03-313, para. 47 (2003) (“*Ysleta Order*”), at ¶ 52 (finding that “the prices relevant for our competitive bidding requirements are those of eligible services... [and] our past decisions require that actual price be considered in conjunction with these non-price factors to ensure that any consideration between price and technical excellence or other factors are reasonable”).

⁷ *Petition for Reconsideration by Spokane School District 81, Spokane, WA*, WC Docket No. 02-6, Order, Da 14-1188, 29 FCC Rcd 9695 (Wir. Comp. Bur. 2014), at ¶ 2; *Requests for Review of Decisions of the Universal Service Administrator by Spokane School District 81*, CC Docket No. 02-6, DA 13-885, 28 FCC Rcd 6026 (Wir. Comp. Bur. 2013), at ¶ 2.

Finding #1 rests on a misunderstanding of the Learning Works response to [A]AD's questions on this topic. As is clear from the discussion above, Learning Works followed its bid evaluation process and stayed within the scope of the "Cost of E-rate eligible goods and services" factor by considering only eligible costs. Each vendor proposal identified eligible costs, and Learning Works carefully considered and evaluated the actual dollar amount proposed by all bids for eligible services and only considered eligible services. As discussed above, the fact that Gigakom and Jive received identical pricing scores, despite facially different pricing proposals for eligible services, reflects the Selection Committee's belief that the two vendors' prices would ultimately be similar, when compared on an "apples-to-apples" basis.

We understand that by not providing this more detailed explanation, [A]AD appears to have misinterpreted our response. To be completely clear, we only relied upon the materials set forth in the eight (8) proposals and only on eligible costs. During the competitive bid evaluation, Learning Works considered price of eligible goods and services as the primary factor in scoring all of the bids and the actual price quoted for the eligible services always remained the primary factor in our score sheet, as well in our scoring decision. Thus, [A]AD, in misunderstanding our earlier response, erred in determining that the Learning Works bid evaluation included ineligible costs and did not consider the actual dollar amount of cost, as well as in concluding "that the Beneficiary did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor."

The FCC's *Spokane Order*, related to consideration of ineligible costs, is not applicable. From the determination and the *Spokane Order*, it is understandable how [A]AD reached this conclusion, because Learning Work's response was not clear. As we have now confirmed, we only relied on eligible services during our competitive bid evaluation. [A]AD appears to have made a finding based upon a misunderstanding of Learning Works' response, and thereby determined that the factors it considered were ineligible, when, in fact, they were not. Given that Learning Works only relied upon eligible services, the reliance on the *Spokane Order* is not applicable to the actual facts here.

Learning Works also respectfully disagrees with [A]AD's finding that the consideration of the price of the eligible services was not considered the highest and given most weight on its scoring. The "Evaluation Summary Sheet" lists the "Cost of E-rate eligible goods and services" as worth 30 points, more than any of the other four evaluation factors.

Third, Learning Works points out that, even had it scored the Gigakom and Jive bids as proposed by [A]AD, Jive would have obtained the highest number of points and would, therefore, still have emerged as the winning bidder. In its Finding #1, [A]AD suggests that Jive should not have received more of a score of 15 as that of AT&T, which suggestion is based purely on raw price data alone, which does not always equate to an exact science as demonstrated in the eight (8) different proposals received by Learning Works. Even under [A]AD's suggestion, Jive would still have been the most cost-effective bid given the total weighting of all criteria, which is demonstrated in the record. For example, if Learning Works had considered the raw cost number according to [A]AD, Learning Works should have scored Jive with below 15. If Learning Works had scored Jive with 14 based on the raw cost, then Jive still would have been awarded the bid, because the total score would have been 149 instead of 173 – 15 points higher than the second-most cost-effective bid of 134. If we had scored Jive with a 12, the lowest number given to the highest price in our scoresheet, Jive still would have been awarded the bid, because the total score would have been 143 – 9 points higher than the second most cost-effective bid of 134.

In sum, Learning Works respectfully requests that [A]AD reconsider its Finding. Learning Works only used the costs of eligible E-Rate services in reaching our decision on cost-effectiveness. Further, the price criterion was weighted more heavily than any other factor. Finally, even if the evaluation had been conducted as proposed by [A]AD, the same vendor (Jive) would still have been awarded the contract. We appreciate the time that [A]AD has taken in this audit. We have benefitted from the review and remain committed to understanding the rules of the E-Rate Program.

AAD RESPONSE TO BENEFICIARY RESPONSE RECEIVED AUG. 22, 2018

In its response, the Beneficiary states “that the bid evaluation process Learning Works followed made the price only of eligible Hosted VOIP services the primary factor against which vendor proposals were scored... [and that] [w]hen we responded to [A]AD’s question as to why both proposals scored the same, we were addressing some of the differentiators between Gigakom’s proposal and Jive’s proposal, all of which were eligible services...” However, the Beneficiary also acknowledges in its response that “the bid submitted by Jive demonstrates that the cost considered, \$826.00/month, was the cost of E-Rate eligible services only... [and the bid submitted by Gigakom proposed] eligible monthly recurring costs of \$658.18...” Thus, Gigakom did propose a cost for the eligible services that was only 80 percent ($\$658.18 / \826) of the cost proposed by Jive.

The Beneficiary states in its response that “[w]e assigned Jive and Gigakom the same pricing score, because we believed that such equal scores most accurately aligned with the pricing in the respective proposals and the needs of our school, and in an attempt to make an ‘apples-to-apples’ comparison between the two bids.” Yet, in its response, the Beneficiary explains that the scoring of price took into consideration that the “Gigakom proposal consisted of a single page, showing little more than bare pricing information for ‘Hosted VOIP’... [whereas] Jive, in contrast, provided a 60-page proposal that included detailed information on the eligible features and functionalities that it provides with its Hosted VOIP services...” The Beneficiary states that its decision to award both bidders the same score for price “was based on the Evaluation Committee’s expert evaluation of the uncertainty and risk that Gigakom ultimately would impose additional eligible charges for features, equipment, or other items that Jive had explicitly identified and included in its proposed charges.” In its FCC Form 470, the Beneficiary requested and sought bids for “Hosted VoIP with Unified Messaging.” Because both bidders proposed solutions for Hosted VoIP, considerations for the detailed information provided in the proposals and whether a bidder would impose additional charges for other features, equipment or other items should be evaluated as other non-cost factors, such as completeness of the proposal. In its bid evaluation, the Beneficiary did award Jive more points (13.5) in the completeness of proposal criterion than it awarded Gigakom (3). AAD concurs with the Beneficiary’s response that “[t]he ‘Evaluation Summary Sheet’ lists the ‘Cost of E-rate eligible goods and services’ as worth 30 points, more than any of the other four evaluation factors.” However, because the completeness of the proposal was also considered in the price criterion, the Beneficiary did not perform an adequate competitive bidding process as it did not only consider the cost of eligible services in the price criterion.

In its response, the Beneficiary states that “even had it scored the Gigakom and Jive bids as proposed by [A]AD, Jive would have obtained the highest number of points and would, therefore, still have emerged as the winning bidder.” AAD does not dispute that this may have been a possible outcome. However, in accordance with the Rules, “applicants must use the price of eligible services as the primary factor when selecting the winning offer for E-rate supported services... [and arguing] that the contract awards would have been the

same... does not demonstrate compliance with the applicable rule....” AAD does not have authority to waive the Rules.

The beneficiary stated in its response that “the fact that Gigakom and Jive received identical pricing scores, despite facially different pricing proposals for eligible services, reflects the Selection Committee’s belief that the two vendors’ prices would ultimately be similar, when compared on an ‘apples-to-apples’ basis.” USAC is required to conduct audits in accordance with generally accepted government auditing standards,⁸ which require AAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.⁹ In this instance, AAD concludes that the Beneficiary has not demonstrated through sufficient, appropriate evidence that the prices proposed by the two bidders are comparable for the services requested on the FCC Form 470.

For the reasons above, AAD’s position on this finding remains unchanged.

BENEFICIARY RESPONSE RECEIVED OCT. 23, 2018

1) Restricted Ability to Compare Bids

Because most of the bids as submitted were incomplete and/or ambiguous, and did not explain crucial components of said services, during the evaluation process, the evaluators worked hard at fairly comparing each bid, according to what services were offered. Below outlines questions/issues raised in each of the top five VoIP vendor bid responses.

Gigakom (\$658/month; 27 price points): Gigakom’s bid was the second most complete (Attachment 1).¹⁰ The service plan wasn’t tiered and did not add a charge for extra minutes. Further, we were required to purchase handsets separately supported by their system. Gigakom also made brief mention of an edge gateway being installed in our data closets (\$30/mo charge), but failed to mention what kind, whether it was compatible with our existing equipment or whether we’d be charged for each edge gateway that needed to be installed (Attachment 2).¹¹ Moreover, the bid did not address support for service outages. In addition, the disclaimer in Gigakom’s proposal raised a significant concern as to pricing. Specifically, it stated “[o]ur pricing proposal is based on the information provided during the RFP process. Any omissions, changes, exclusions or information discovered after this proposal process may incur additional charges.”(Attachment 3).¹² This open-ended disclaimer affected the bid price offered in their proposal. Gigakom made no effort to visit the facility or contact us directly to understand our needs.

⁸ 47 C.F.R. § 54.702(n).

⁹ 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.”).

¹⁰ See Gigakom’s “Hosted VoIP Proposal – Summary of Charges” page attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

¹¹ See Gigakom’s “Service Activation Form” attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

¹² See Gigakom’s “Pricing” section extracted from Gigakom’s proposal attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

Proficient (\$697/month; 24 points): Proficient’s bid was third most complete (Attachment [4]).¹³ The service plan wasn’t tiered, so there was no ambiguity about what level of service the school would require. However, the Proficient bid also included a per-minute charge, which is not included in the raw bid. At \$95.00 per 5000 minutes and 2.3 cents per minute thereafter, this cost would potentially be very significant. Moreover, the bid did not address support for service outages. It also failed to identify on-site equipment and the features of the phone. Their bid was also unclear as to whether our existing phones would be compatible with their system. Proficient made no effort to visit the facility or contact us directly to understand our needs.

Masergy (\$733/month; 18 points): Masergy’s raw quote (Attachment 5)¹⁴ was based on the monthly cost of a “Standard User Account,” but failed to differentiate between the features/minutes included in that package (\$12.90/mo) and the more expensive “Power User Account” (\$17.95/mo) and the “Premium User Account” (\$20.95/mo). As a result, it is completely unclear what Masergy’s actual monthly cost would be (Standard extends to \$645/mo, Power User extends to \$897.50/mo and Premium extends to \$1047.50/mo). Also, Masergy’s bid mentioned a 25-session router being installed in our data closets (\$36/mo charge), but failed to mention what kind, whether it was compatible with our existing equipment or whether we’d be charged for each edge gateway that needed to be installed. Also, there was an option for a 50-session router (\$41/mo), which was not included in the raw bid. Masergy made no effort to visit the facility or contact us directly to understand our needs and given the lack of clarity of the proposal, it was not feasible to compare the price of the bid with the others.

AT&T (\$820/month; 15 points): AT&T’s bid was the most ambiguous and problematic. As with Masergy, the raw bid only included the most basic package cost at \$15.12/month (extending to \$756/month), without listing the features and services that differentiated it from higher-tiered services (Attachment 6).¹⁵ With other service levels ranging from \$16.14/month (extending to \$807/month), to \$33.83/month (extending to \$1619.50/month), the pricing on AT&T’s raw bid was difficult to ascertain what Learning Works’ actual monthly cost would be. In addition, AT&T’s required use of their handsets (Attachment 8)¹⁶ in the bid proposal, when Learning Works already owned their handsets; required Learning Works to duplicate its funding of these handsets. In addition, this AT&T requirement to use their own handsets was also not compatible with the existing equipment. AT&T made no effort to visit the facility or contact us directly to understand our needs.

Jive (\$826/month; 27 points): Jive provided the most comprehensive bid response, (Attachment 7).¹⁷ Jive made an effort to visit the school and understand the needs of the school and the existing equipment. They quoted two different tiers of service, namely Standard service and Low Usage service. The pricing and features of each service tiers were clearly defined, and the school’s existing handsets were compatible with Jive’s

¹³ See Proficient’s “Option 4: Hosted Line Service” page attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

¹⁴ See Masergy’s “Pricing: E-Rate Category 1 Eligible Monthly Recurring Cost (MRC)” page attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

¹⁵ See “AT&T E-Rate CALNET3 Managed VoIP Proposal” pricing page attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

¹⁶ See “AT&T E-Rate CALNET3 Managed VoIP Proposal” describing the “AT&T E-Rate Managed VoIP (Voice DNA)” attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

¹⁷ See Jive’s “Sales Quote” for hosted VoIP attached to email from Jane Kratochvil, Beneficiary’s Consultant, to AAD (Oct. 23, 2018).

system. Finally, unlike any of the other bidders, included in Jive's pricing was the assignment of a customized support team to contact in case of a service outage or the school experienced technical issues that disabled phone service.

2) Knowledge of LWC's VoIP Needs

Jive was the only VoIP vendor that contacted LWC and requested a walkthrough of the school to better understand LWC's needs.

AT&T and Gigakom's contract wording specifically stated that the customer's infrastructure must be compatible to their respective systems and if they were not, LWC would be responsible for any additional costs. (See Attachment 8 citing to AT&T that "[a]ll locations must be qualified to be sure they are within AT&T's capability." and Attachment 3 to Gigakom that "[u]nless otherwise specified during the RFP and bidding process it is assumed that the customer network is ready for VOIP services and additional charges may be incurred should the customer network not be ready including but not limited to the cost to establish VLANs, QoS, routing and other configuration establishments.")

With the exception of Jive, all vendors provided ambiguous, incomplete, or insufficient information or did not clearly address or include support options. Some of the services fail to mention support at all, and some mention that they offer 24/7/365 support, by calling an 800 number. Jive was the only bidder that assigned LWC a support team, available to us 24/7/365. If the regular phone service went down, Jive—with a team of regular support agents familiar with the school and its infrastructure—was the best equipped to get it back up and running the fastest, a critical factor to LWC. The bid scoring reflected these disparities in pricing.

3) Multiplied Scores Made the "Price" Inflated the Apparent Score Discrepancies

The raw price score was multiplied to account for the highest weighting among all the criteria against which it was evaluated. This is appropriate, since price of eligible services is supposed to be the most important factor (Attachment 9):¹⁸ "...the Rules require that the price of eligible goods and services must be give[n] more weight than any other single factor." In reality, each bid was scored on a scale of 1 to 5, by increments of half a point.

So, for example, (using the same example of AT&T 's bid vs. Jive's bid cited in finding number one [Attachment 10]), AT&T's bid was \$6 lower than Jive's, a difference of .73%. Given that each raw Price score is an increment of 10% (0.5/5.0), how much lower should Jive's score have been than AT&T's? All of these vendor bid scores are supposed to be subjective, based on a variety of factors that comprise each criterion.

4) Even If Jive Received the Lowest Score for Price, Jive Still Won

Even if Jive had received the lowest possible score for Price (6), it still would have won the contract for VOIP (receiving a score of 65.5 and eclipsing the next highest score by Proficient by 2.5 points).

Conclusion

In conclusion, Learning Works believes that it scored the submitted VOIP bids properly and did its best given that it was impossible to validly compare bids, based on the varied and ambiguous line items contained in each vendor's bid. All bidders had the same access to facilities tours and informational interviews with school

¹⁸ Attachment provided by Beneficiary was a copy of the Condition of this finding.

technical staff, and Jive’s price was most transparent and clearly [sic] and accurately reflected all components of the eligible price that met the needs of our school.

AAD RESPONSE TO BENEFICIARY RESPONSE RECEIVED OCT. 23, 2018

In its response, the Beneficiary stated that “[w]ith the exception of Jive, all vendors provided ambiguous, incomplete, or insufficient information or did not clearly address or include support options.” To clarify this assertion, the Beneficiary stated the following.

Beneficiary’s Response	Response Applicable To			
	Gigakom	Proficient	Masergy	AT&T
The bidder “did not address support for service outages.”	Yes	Yes	No	No
Beneficiary either could not determine whether or determined the service or equipment was not “compatible” with Beneficiary’s existing equipment or bidder’s system.	Yes	Yes	Yes	Yes
The bidder “made no effort to visit the facility or contact us directly to understand our needs.”	Yes	Yes	Yes	Yes

None of the responses above, however, address the condition of this finding. AAD reiterates its conclusion that the Beneficiary did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor. The factors considered by the Beneficiary in its responses above are non-price factors.

In its response, the Beneficiary also indicated that it considered the costs of ineligible equipment and services, including:

- “[W]e were required to purchase handset separately supported by [Gigakom’s] system.”
- The Proficient bid “failed to identify on-site equipment and the features of the phone.”
- The AT&T bid “required use of their handsets..., [which] required Learning Works to duplicate its funding of these handsets.”
- “LWC would be responsible for any additional costs...” to make its infrastructure compatible with AT&T and Gigakom.

AAD emphasizes that the Rules require the Beneficiary to consider the price of **eligible** equipment and services as the primary factor. When considering the price of ineligible equipment and services, the Beneficiary must use a separate evaluation factor weighted less than the evaluation factor for price of eligible equipment and services.

The Beneficiary stated in its response that Gigakom’s bid stated that the “pricing proposal is based on the information provided during the RFP process [and] Any omissions, changes, exclusions or information discovered after this proposal process may incur additional charges[and that] [t]his open-ended disclaimer affected the bid price offered in their proposal.” AAD does not concur that this disclaimer should have affected the price considered in the Beneficiary’s evaluation. It is reasonable and not uncommon practice for bidders to make disclaimers stating that additional charges may be incurred if a customer seeking bids alters

the RFP after submission of the bid. The disclaimer clarifies that the bidder’s price is based on the information as presented in the RFP.

In its response, the Beneficiary stated that “the Proficient bid also included a per-minute charge, which is not included in the raw bid [and,] [a]t \$95.00 per 5000 minutes and 2.3 cents per minute thereafter, this cost would potentially be very significant.” Although AAD concurs this could affect the score awarded for price, first, the Beneficiary’s bid evaluation did not demonstrate it considered the number of minutes that may be incurred each month. Furthermore, even if Proficient’s highest tier of 5,000 minutes at \$95 per month is factored into the cost, Proficient’s bid of \$792 (\$697 + \$95), remains cheaper than Jive’s bid of \$826.

In its response, the beneficiary stated that “it is completely unclear what Masergy’s actual monthly cost would be...” The Beneficiary asserts that this is because “Masergy’s raw quote... was based on the monthly cost of a ‘Standard User Account,’ but failed to differentiate between the features/minutes included in that package (\$12.90/mo) and the more expensive ‘Power User Account’ (\$17.95/mo) and the ‘Premium User Account’ (\$20.95/mo).” However, in its bid, Masergy distinctly stated that the total monthly recurring costs for E-rate eligible Category 1 services was \$733. The Beneficiary also stated that “there was an option for a 50-session router (\$41/mo), which was not included in the raw bid.” The Beneficiary’s bid evaluation documentation does not demonstrate whether the Beneficiary selected this option. Even if the Beneficiary had considered the option, Masergy’s bid of \$774 (\$733 + \$41) is still cheaper than Jive’s bid of \$826.

In its response, the Beneficiary stated that “the pricing on AT&T’s raw bid was difficult to ascertain what Learning Works’ actual monthly cost would be.” In the bid AAD examined during the audit, AT&T offered the following solutions:

Service	Monthly Rate Per User
Standard Converged VoIP Handset Package w/ Polycom 321 or equivalent	\$10.25
Midrange Converged VoIP Handset Package w/ Astra 6731i or equivalent	\$11.28
Executive Converged VoIP Handset Package w/ Polycom SoundPoint IP 560 or equivalent	\$13.84
Attendant Converged VoIP Handset Package w/ Polycom SoundPoint IP 670 or equivalent	\$16.40
Converged VoIP Standard Conference Room Speakerphone w/ Polycom SoundStation IP 7000 or equivalent	\$27.68
Executive Conference Room Speakerphone Service Package w/ Polycom SoundStation IP 7000 w/ two external speakers or equivalent	\$29.73

Because the bid offered options and rates associated with each option, AAD does not concur with the Beneficiary’s statement that “AT&T’s bid was the most ambiguous.” When scoring price, the Beneficiary had the opportunity to choose the option that best meets its needs and determine price using the monthly rate multiplied by the number of estimated users. In its FCC Form 470, the Beneficiary requested hosted VoIP “for all school sites with up to 50 users (or greater).” If selecting the Standard Converged package, the estimated monthly price to the Beneficiary for 50 users would be approximately \$513 (\$10.25 * 50). Likewise, if the Beneficiary selected a more advanced package, without selecting conference room speakerphones for every

user, the estimated monthly price for the Attendent Converged package is \$820 (\$16.40 * 50). For the purposes of comparison to other bids, AAD used the Attendent Converged option. The Beneficiary could have selected multiple packages for different users, but unless the Beneficiary selected to use conference room speakerphones for every user, the most likely result is that AT&T's bid would have been at or below the bid amount offered by Jive, yet AT&T was awarded a less favorable score for price.

The beneficiary stated in its response that "given that each raw Price score is an increment of 10% (0.5/5.0), how much lower should Jive's score have been than AT&T's?" As noted above, it appears AT&T offered solutions with an estimated price at or below the price offered by Jive. However, AT&T's score for price (15) was 12 less points than the score awarded for price to Jive (27). Conversely, bidders that offered cheaper solutions, such as Gigakom, were awarded the same score in the price factor as Jive.

In its response, the Beneficiary stated that "Jive provided the most comprehensive bid response." AAD does not dispute that the Beneficiary may have determined that Jive provided the most complete bid. However, factors such as visiting the school, offering different tiers of service, whether handsets are compatible, and the customization of the bidder's support team are non-cost factors and does not address the condition of this finding.

In its response, the Beneficiary states that "[e]ven if Jive had received the lowest possible score for Price (6), [Jive] would have won the contract..." AAD does not dispute that this may have been a possible outcome. However, in accordance with the Rules, "applicants must use the price of eligible services as the primary factor when selecting the winning offer for E-rate supported services... [and arguing] that the contract awards would have been the same... does not demonstrate compliance with the applicable rule..."¹⁹ AAD does not have authority to waive the Rules.

While the Beneficiary's response asserts that many factors were considered in its decision to select Jive as its service provider, the factors are based on non-price considerations or the price of ineligible equipment and services, which does not address the condition of this finding that concludes the Beneficiary did not consider price of eligible services as the primary factor. For these reasons, AAD's position on this finding remains unchanged.

¹⁹ *Spokane Order*, para. 4.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.511(a) (2015)	Except as exempted in §54.503(e), in selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.
#1	<i>Requests for Review by Spokane School District 81 of Decisions of the Universal Service Administrator</i> , CC Docket No. 02-6, Order, 28 FCC Rcd. 6026, 6028, para. 4 (2013) (<i>Spokane Order</i>)	Although applicants may consider factors other than the pre-discount prices of eligible services when determining whether a particular offering is the most cost-effective, applicants must use the price of eligible services as the primary factor when selecting the winning offer for E-rate supported services.... Additionally, although Spokane argues that the contract awards would have been the same if the price of the ineligible items had been excluded from the “capital and life cycle cost” criterion, that alone does not demonstrate compliance with the applicable rule; nor does Spokane provide evidence to support that assertion.
#1	<i>Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator</i> , CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, para. 52 (2003) (<i>Ysleta Order</i>)	[T]he prices relevant for our competitive bidding requirements are those of eligible services... [and] our past decisions require that actual price be considered in conjunction with these non-price factors to ensure that any consideration between price and technical excellence or other factors are reasonable. As noted above, the Commission stated in the Tennessee Order that it “certainly expect[s] that schools will evaluate the actual dollar amount proposed by a bidder...” for eligible services during the bidding process.
#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.



Universal Service
Administrative Co.

Cicero School District 99

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR042

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EXECUTIVE SUMMARY

December 5, 2018

Rudy Hernandez, Superintendent
Cicero Public School District 99
5110 W. 24TH Street
Cicero, IL 60804

Dear Mr. Hernandez:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Cicero School District 99 (Cicero), Billed Entity Number (BEN) 135776, 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. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the limited review audit.

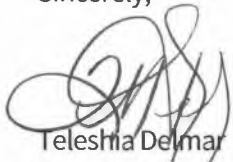
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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 AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives

Based on the test work performed, our examination did not disclose any areas 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 Federal Communications Commission (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,



Telesha Delmar
Vice President, Audit and Assurance Division

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

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
Internal Connections	\$1,238,256	\$0
Internet Access	\$409,701	\$180,000
Voice	\$298,174	\$0
Total	\$1,946,131	\$180,000

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 twelve Funding Request Numbers (FRNs). AAD selected three FRNs,¹ which represent \$1,646,139 of the funds committed and \$180,000 of the funds disbursed 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 public school district located in Cicero, Illinois that serves over 11,000 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC

¹ The FRNs included in the scope of this audit were 1699081563, 1699120114, and 1699120147.

Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. AAD evaluated the equipment and services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

AAD 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, AAD reviewed invoices associated with the SPI forms for equipment and services provided to the Beneficiary. AAD 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 eligible in accordance with the SLP Eligible Services List.



Universal Service
Administrative Co.

Cardinal Cushing Centers

Limited Review Audit on Compliance with the Federal Universal Service
Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR068

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Criteria 10



EXECUTIVE SUMMARY

September 10, 2018

Mr. Peter O'Meara, President and CEO
Cardinal Cushing Centers
405 Washington Street
Hanover, MA 02339

Dear Mr. O'Meara,

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Cardinal Cushing Centers (Beneficiary), Billed Entity Number (BEN) 16072542, 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. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the limited review audit.

AAD 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 AAD 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 AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two 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 Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Teleshia Delmar', written in a cursive style.

Teleshia Delmar
Vice President, Audit and Assurance 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. § 54.520(c)(1)(i); 47 C.F.R. § 54.520(h) – Failure to Comply with CIPA Requirements - Missing Internet Safety Policy Elements, Lack of Public Hearing or Meeting & Lack of Public Notice. The Beneficiary did not address one of the required elements in its ISP and did not provide documentation demonstrating that a public meeting or hearing was held to discuss the ISP and provided reasonable public notice for the public meeting or hearing.	\$0.00	\$0.00	\$0.00
Finding #2: 47 C.F.R. § 54.505(b)(1) – Inadequate Discount Calculation Process – Documentation Did Not Match Amounts Reported on the FCC Form 471. The Beneficiary’s discount calculation process used for completing its FCC Form 471 was not adequate because the documentation provided by the Beneficiary does not support the enrollment and NSLP amounts used in its FCC Form 471.	\$0.00	\$0.00	\$0.00
Total Net Monetary Effect	\$0.00	\$0.00	\$0.00

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 offers a webcast to help applicants understand compliance with the Children's Internet Protection Act (CIPA) available at (https://goto.webcasts.com/starthere.jsp?ei=1190671&tp_key=2f47022845).

USAC also directs the Beneficiary to USAC's website under "Reference Area" for guidance on CIPA available at (<https://www.usac.org/sl/applicants/step05/cipa.aspx>) and Discount Calculations available at (<https://www.usac.org/sl/applicants/step03/discounts.aspx>). Additional information on E-rate rule compliance is available in the USAC Online Learning Library available at (<https://www.usac.org/sl/about/outreach/online-learning.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, 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	\$42,660	\$0.00
Voice	\$34,501	\$0.00
Total	\$77,161	\$0.00

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). AAD selected three FRNs, which represent \$58,321 of the funds committed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by Beneficiary.

BACKGROUND

The Beneficiary is a school district serving students with special needs located in Hanover, Massachusetts that serves over 140 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD 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. AAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive SLP funds. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

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

B. Competitive Bid Process

AAD used inquiry to determine that no bids were received for the requested services. AAD 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. AAD evaluated the services requested and purchased for cost-effectiveness as well.

C. Site Visit

AAD 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. AAD evaluated whether the Beneficiary had the necessary resources to support the services for which funding was requested. AAD 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); 47 C.F.R. § 54.520(h) – Failure to Comply with CIPA Requirements - Missing Internet Safety Policy Elements, Lack of Public Hearing or Meeting & Lack of Public Notice

CONDITION

AAD examined documentation to determine whether the Beneficiary complied with the Children’s Internet Protection Act (CIPA) requirements for FRN 1699106433. AAD reviewed the Beneficiary’s Internet Safety Policy (ISP) and noted that the ISP did not address the following required Internet safety element:

- 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.

In addition, the Beneficiary did not provide sufficient documentation demonstrating that a public meeting or hearing was held to discuss the ISP and did not have sufficient evidence that reasonable public notice was provided for a public meeting or hearing.¹ The Beneficiary informed AAD that it “had informal meetings (without minutes taken) with the parents in order to brief them on the changes [the Beneficiary] made in order to help the monitoring and protection of the students... [and the Beneficiary’s] website [has] a calendar that lets anyone know when any of the public meetings are taking place.”² However, the Beneficiary did not provide documentation demonstrating the informal meetings occurred or that the public notice was made on the Beneficiary’s website.

AAD is required to conduct its audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), which require AAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.³ Because the Beneficiary did not address one of the required elements in its ISP and did not provide documentation demonstrating that a public meeting or hearing was held to discuss the ISP and provided reasonable public notice for the public meeting or hearing, AAD is unable to conclude that the Beneficiary was technically compliant with all of the CIPA requirements. However, because the Beneficiary had an ISP and a filter to monitor Internet content, the Beneficiary was in substantial compliance with the spirit of the CIPA requirements.⁴

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the Internet safety policy elements that must be addressed in the ISP. In addition, the Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records that demonstrate CIPA

¹ 47 C.F.R. § 54.516(a)(1) (2015).

² See letter from Sigmund Kozaryn, Vice President/CFO, Cardinal Cushing Centers, to AAD (Feb. 28, 2018).

³ 47 C.F.R. § 54.702(n) (2015). See also 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.”).

⁴ See Letter from Dana R. Shaffer, Chief, Wireline Competition Bureau to Scott Barash, Acting Chief Executive Officer, USAC, WC Docket No. 02-6, 24 FCC Rcd. 417 (Jan. 16, 2009).

compliance were properly retained. The Beneficiary did not have personnel that utilized the training materials provided by SLP regarding CIPA requirements.

EFFECT

There is no monetary effect associated with this finding. While the Beneficiary may not have been in technical compliance with all of the CIPA requirements for FRN 1699106433, the Beneficiary substantially complied with the spirit of the CIPA requirements.

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure it complies with the CIPA requirements and that it retains adequate records related to the application for, receipt, and delivery of discounted telecommunications and other supported services as required by the Rules. The Beneficiary must ensure that all required Internet safety policy elements are addressed in the ISP. The Beneficiary must cure this CIPA violation within six months following receipt of the audit report by providing reasonable public notice and holding a public meeting or hearing to address its ISP as required by the Rules. Further, AAD recommends the Beneficiary visit USAC's website at www.usac.org/sl/about/outreach/default.aspx to become familiar with the training and outreach available from SLP.

BENEFICIARY RESPONSE

[The Beneficiary chose not to respond to this finding.]

Finding #2: 47 C.F.R. § 54.505(b)(1) - Inadequate Discount Calculation Process - Documentation Did Not Match Amounts Reported on the FCC Form 471

CONDITION

AAD obtained and examined documentation provided by the Beneficiary to determine whether the Beneficiary properly calculated its discount percentage for FRNs 1699057256 and 1699106433. The Beneficiary provided its claim for reimbursement form for December 2016 (Claim Form), which was on file with the Massachusetts Department of Elementary & Secondary Education (MDESE). The Claim Form includes information such as the total free, reduced, and paid meals provided to students during December 2016. However, the Claim Form 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).⁵ The Beneficiary provided the Claim Form to the auditor in an effort to support its NSLP eligibility percentage, but the Claim Form was filed with the MDESE subsequent to submission of its FCC Form 471 on May 18, 2016, and could not have been the document used by the Beneficiary to obtain the enrollment and NSLP figures in its FCC Form 471.

In its FCC Form 471, the Beneficiary identified 146 students enrolled and 141 students eligible for NSLP, resulting in a NSLP eligibility percentage of 97 percent. The Beneficiary's SLP discount rate based on the NSLP eligibility percentage is 90 percent for Category 1 services (excluding voice services) and 50 percent for voice services. To determine whether the Beneficiary's total enrollment was accurate, AAD obtained the 2016-17

⁵ 47 C.F.R. § 54.516(a)(1) (2015).

Non-Public School Report from the MDESE website and noted that 147 students were listed. To determine whether the Beneficiary's number of students eligible for the NSLP in its FCC Form 471 was accurate, AAD examined the Claim Form and noted that the Beneficiary provided 1,643 free and reduced lunches and 1,812 total lunches, resulting in an estimated NSLP eligibility percentage of 91 percent, which amounts to approximately 134 students (147 * 91 percent).

NSLP eligibility of 91 percent results in the same SLP discount rates as completed on the Beneficiary's FCC Form 471. Therefore, AAD determined that the Claim Form provides sufficient information to support the Beneficiary's SLP discount rates for Funding Year 2016. However, because the *2016-17 Non-Public School Report* and the Claim Form do 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 Massachusetts Department of Elementary & Secondary Education to maintain the amounts provided by the Beneficiary and could not explain how to reconcile the amounts to the FCC Form 471.

EFFECT

There is no monetary effect for this finding because although the Claim Form does not support the enrollment and NSLP amounts used in the Beneficiary's FCC Form 471, AAD was able to recalculate the discount percentage using the Claim Form 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, and that it retains adequate records related to the application for, receipt, and delivery of discounted telecommunications and other supported services.

BENEFICIARY RESPONSE

[The Beneficiary chose not to respond to this finding.]

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.520(c)(1)(i) (2015)	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.
#1	47 C.F.R. § 54.520(h) (2015)	A school or library shall provide reasonable public notice and hold at least one public hearing or meeting to address the proposed Internet safety policy.
#1, #2	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. § 54.702(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. § 54.505(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.

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: March 6, 2019

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Metropolitan School District of Lawrence Township Attachment D	1	<ul style="list-style-type: none"> • <u>Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Locations.</u> Beneficiary included four Early Learning Centers that provide instruction to Pre-Kindergarten (Pre-K) students in its FCC Form 471. As determined by Indiana state law, Pre-K facilities and students are not eligible for SLP support. 	\$821,681	\$4,110	\$4,110	\$0	Y
City on a Hill Charter Public School Dudley Square Attachment E	0	<ul style="list-style-type: none"> • Not applicable. 	\$57,825	\$0	\$0	\$0	N
Affiniti PA, LLC Attachment F	0	<ul style="list-style-type: none"> • Not applicable. 	\$2,691,622	\$0	\$0	\$0	N
Total	1		\$3,571,128	\$4,110	\$4,110	\$0	



Universal Service
Administrative Co.

Metropolitan School District of Lawrence Township

Limited Review Audit on Compliance with the Federal Universal Service
Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR041

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**Universal Service
Administrative Co.**

EXECUTIVE SUMMARY

September 13, 2018

Dr. Shawn Smith, Superintendent
Metropolitan School District of Lawrence Township
6501 Sunnyside Road
Indianapolis, IN 46236

Dear Dr. Smith:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Metropolitan School District of Lawrence Township (Beneficiary), Billed Entity Number (BEN) 130282, 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. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

AAD 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 AAD 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 AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD'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 Federal Communications Commission (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,

 on behalf of

Teleshia Delmar
Vice President, Audit and Assurance 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. § 54.501(a)(1) – Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Locations. In its FCC Form 471, the Beneficiary included four Early Learning Centers (ELCs) that provide instruction to Pre-Kindergarten (Pre-K) students. As determined by Indiana state law, Pre-K facilities and students are not eligible for SLP support.	\$4,110	\$4,110	\$0
Total Net Monetary Effect	\$4,110	\$4,110	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. During the recovery review process, if there are other FRNs that fall under this finding there may be additional recoveries.

USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC offers webcasts to help applicants understand entities that are eligible to receive services available at (https://goto.webcasts.com/viewer/event.jsp?ei=1201348&tp_key=6792beec37) and how to navigate the Invoicing process available at (<https://register.gotowebinar.com/register/8853081102717051650>).

USAC also directs the Beneficiary to USAC’s website under “Reference Area” for guidance on Non-Traditional Education Eligibility available at (<https://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx>) and Invoicing available at (<https://www.usac.org/sl/applicants/step06/default.aspx>). Additional information on E-rate rule compliance is available in the USAC Online Learning Library available at (<https://www.usac.org/sl/about/outreach/online-learning.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 1699064129	FRN 166037385	USAC Recovery Action
Finding #1	\$3,861	\$249	\$4,110
Total	\$3,861	\$249	\$4,110

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
Internal Connections	\$566,387	\$560,813
Internet Access	\$247,680	\$220,800
Voice	\$62,151	\$40,068
Total	\$876,218	\$821,681

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

The committed total represents three FCC Form 471 applications with four Funding Request Numbers (FRNs). AAD selected three FRNs, which represent \$867,287 of the funds committed and \$821,681 of the funds disbursed 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 school district located in Indianapolis, Indiana that serves over 15,000 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD 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. AAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive SLP funds. AAD 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

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

C. Invoicing Process

AAD 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. AAD also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Site Visit

AAD 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. AAD evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. AAD also evaluated the equipment and services purchased by the Beneficiary to determine whether funding was used in an effective manner.

E. Reimbursement Process

AAD 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, AAD reviewed invoices associated with the BEAR and SPI forms for equipment and services provided to the Beneficiary. AAD 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. § 54.501(a)(1) – Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Locations

CONDITION

AAD examined the FCC Form 471, FCC Form 474 Service Provider Invoice form, and the corresponding service provider bills to determine if the services requested by the Beneficiary and invoiced by ENA Services, LLC (Service Provider) to the Schools and Library Program (SLP) were delivered only to eligible students and locations for FRNs 1699064129 and 1699037385. In its FCC Form 471, the Beneficiary included four Early Learning Centers (ELCs) that provide instruction to Pre-Kindergarten (Pre-K) students. As determined by Indiana state law, Pre-K facilities and students are not eligible for SLP support.¹ AAD examined documentation provided by the Beneficiary and determined that there were 15,199 students enrolled with the Beneficiary, which included 955 Pre-K students.

For FRN 1699064129, the Service Provider invoiced SLP seeking reimbursement for services delivered to all locations, including the ELCs, for total pre-discounted costs of \$276,000. AAD determined that the Service Provider over-invoiced SLP for the discounted costs of \$13,874 for FRN 1699064129, as follows:

FRN	1699064129
Total Pre-Discounted Costs	\$276,000
Beneficiary's Discount Rate for Internet Access	80%
Total Discounted Costs Invoiced to SLP	\$220,800
Percent of Ineligible Pre-K Students (955 / 15,199)	6.28%
Total Discounted Costs Over-Invoiced to SLP	\$13,874

For FRN 1699037385, AAD examined the Service Provider's bills and identified that the Beneficiary was billed \$65 per month for each ELC. Thus, AAD determined that the Service Provider over-invoiced SLP for the discounted costs of \$1,248 for FRN 1699037385, as follows:

FRN	1699037385
Pre-Discounted Cost Per ELC Per Month	\$65
Total Number of ELCs	4
Total Pre-Discounted Costs Billed for ELCs Per Month	\$260
Total Number of Months Services Were Delivered	12
Total Pre-Discounted Costs Billed for ELCs for FY 2016	\$3,120
Beneficiary's Discount Rate for Voice Services	40%
Total Discounted Costs Over-Invoiced to SLP	\$1,248

¹ See USAC's website, at <http://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx>. See also IN CODE § 20-18-2-4 (defining elementary schools as "any combination of kindergarten and grades 1, 2, 3, 4, 5, 6, 7, or 8.")

CAUSE

The Beneficiary did not have adequate controls and procedures in place to ensure a sufficient review was performed to identify ineligible facilities and students in order to properly allocate the costs of services requested in its FCC Form 471 between eligible and ineligible facilities and students to ensure SLP support is committed only for eligible facilities and students. In addition, the Beneficiary and Service Provider did not have adequate controls and procedures in place to communicate the eligibility of facilities and students with each other in order to properly allocate the costs of services invoiced between eligible and ineligible facilities and students to ensure SLP support is disbursed only for eligible facilities and students.

EFFECT

The monetary effect of this finding is \$15,122. This amount represents the total discounted costs disbursed by SLP for the ineligible students for FRNs 1699064129 and 1699037385.

RECOMMENDATION

AAD recommends USAC management seek recovery of \$15,122. The Beneficiary must properly allocate the costs of services requested from SLP between eligible and ineligible students to ensure that SLP support is committed only for eligible students. The Service Provider must properly allocate the costs of services invoiced to SLP between eligible and ineligible students to ensure that SLP support is disbursed only for eligible students. AAD also recommends the Beneficiary and Service Provider take advantage of the various outreach efforts provided by SLP, including the annual Fall Applicant training, annual Service Provider training, webinars, newsletters, etc. The Beneficiary and Service Provider 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

In the condition section of this finding it is stated that the auditors were examining FCC Form 474 (SPI) forms to verify that services were delivered only to eligible students and locations for two FRNs. The auditors have focused on four buildings that serve Kindergarten and Pre-Kindergarten (Pre-K) Pre-K students (ELC Amy Beverland, ELC Brook Park, ELC Mary Castle and ELC Winding Ridge). Footnote #1 of the finding notes that Indiana code defines an elementary school as "any combination of Kindergarten and grades 1, 2, 3, 4, 5, 6, 7, or 8". These four buildings are identified by the State of Indiana as Elementary Schools because they house Kindergarten students. As elementary Buildings, these are E-Rate eligible locations. The finding implies that the buildings are ineligible sites. This is incorrect. We do agree that Indiana does not consider Pre-K curriculum to be part of their Elementary definition, and so the Pre-K students in these elementary buildings are not eligible for E-Rate services.

The audit examined FRN 1699064129. This FRN covered basic Internet access for the District. Internet access is supplied to every District building for the use of District staff to provide educational and administrative functions that support their work. Internet access is also supplied to students for educational purposes as deemed fit by the Curriculum Department in conjunction with classroom teachers. The District does not have a curriculum that includes Internet usage by Pre-K students. Because these students do not use this service,

there is no reason to prorate the cost of the service provided to this building out of the total cost of the service.

The audit examined FRN 1699037385. This FRN covered voice service for the District. Voice service is supplied to every District building for the use of District staff. Students (including Pre-K students) do not use this service and so there is no reason to prorate the cost of the service provided to this building out of the total cost of this service.

Because the four ELCs are eligible Elementary Schools and the Pre-K students housed in these schools do not use either service provided by the FRNs in question, we believe there is no reason for any cost allocation of these services. However, if we did believe that cost allocations were necessary, we also need to point out errors in the cost allocations provided in the finding.

The final sentence of the first paragraph stated: “AAD examined documents provided by the Beneficiary and determined that there were 15,199 students enrolled with the Beneficiary, which included 955 Pre-K students. This is incorrect. In funding year 2016 there were 15,199 K-12 students enrolled with the Beneficiary, as documented in the spreadsheet titled “Fiscal Year 2016 FR with CEP”, located on the Indiana Department of Education’s E-rate website page. No ineligible Pre-K students were included in that total. In addition, we replied to an email from AAD that asked the question, “How many Pre-K students are in each ELC?” with a break out of that student population (414 total, see attached copy of the email, Pre-K details have been highlighted). These students are not included in the data put into USAC’s EPC data portal which calculates the District Discount percentage and populates the FCC Form 471. They are in addition to that student count.

So, the total enrollment for the Beneficiary in FY 2016 of Pre-K – 12 students were 15,613. 414 Pre-K Students divided by 15,613 total students is 2.65% of the total student population. This would change the proposed cost allocation for FRN 1699064139 [sic] as follows:

FRN	1699064129
Total Pre-Discounted Costs	\$276,000
Beneficiary’s Discount Rate for Internet Access	80%
Total Discounted Costs Invoiced to SLP	\$220,800
Percent of Ineligible Pre-K Students (414 / 15613)	2.65%
Total Discounted Costs Over-Invoiced to SLP	\$5,851.20

In the ELCs, 414 Pre-K students combine with 955 K students for a total ELC enrollment of 1369, which make the ELCs as a whole 30.24% ineligible for service. The cost allocation for FRN 1699037385 would have to account for this partial eligibility as follows:

FRN	1699037385
Pre-Discounted Cost Per ELC Per Month	\$65
Ineligible Pre-K percentage (414 / 1369)	30.24%
Ineligible Pre-Discounted Cost per ELC per Month	\$19.66
Total Number of ELCs	4

Total Ineligible Pre-Discounted Costs Billed for ELCs Per Month	\$78.64
Total Number of Months Services Were Delivered	12
Total Ineligible Pre-Discounted Costs Billed for ELCs for FY 2016	\$943.68
Beneficiary's Discount Rate for Voice Services	40%
Total Discounted Costs Over-Invoiced to SLP	\$377.47

In addition, something occurred to me that had not previously. Special Education students as young as three years of age are eligible students in the State of Indiana (as noted on the Eligibility Table for Non-Traditional Education on the USAC website), so that changes the cost allocation calculations previously submitted. We know which Pre-K students were considered Special Ed because they have a Special Education code listed in column L of the spreadsheet labeled Preschool Counts 2016SY with ages.xlsx. That gave a total number of 141 Pre-Kindergarten students that are eligible students due to their age and Special Ed needs. We reran the cost allocation numbers to account for this change in the enrollment numbers and attached it as a file labeled "cost allocation including SpEd PreK.xlsx."

The total enrollment for the Beneficiary in FY 2016 of Pre-K – 12 students were 15, 613. Out of 414 Pre-K students, 273 Pre-K students are considered Special Ed ages 3 and up; therefore, eligible. 273 students divided by 15,613 total students is 1.75 % of the total student population that needs to be cost allocated. This would change the proposed cost allocation for FRN 1699064139 [sic] as follows:

District Enrollment (K-12 Only)	15,199	
Pre-K Students	414	
Pre-K that are eligible Special Ed aged 3 and up		141
Pre-K that are ineligible		273
Total Students in District	15,613	

FRN	1699064129
Total Pre-Discounted Costs	\$276,000
Beneficiary's Discount Rate for Internet Access	80%
Total Discounted Costs Invoiced to SLP	\$220,800
Percent of Ineligible Pre-K Students (273 / 15613)	1.75%
Total Discounted Costs Over-Invoiced to SLP	\$3,861

In the ELCs, 414 Pre-K students combined with 955 K students for a total ELC enrollment of 1369. Out of the 414 Pre-K students, 273 Pre-K student are considered Special Ed ages three and up. Furthermore, these students are eligible for SLP support. The cost allocation for FRN 1699037385 would have to account for this partial eligibility as follows:

FRN	1699037385
Pre-Discounted Cost Per ELC Per Month	\$ 65
Ineligible Pre-K percentage (273 / 1369)	19.94%
Ineligible Pre-Discounted Cost per ELC per Month (\$65/19.94%)	\$12.96
Total Number of ELCs	4
Total Ineligible Pre-Discounted Costs Billed for ELCs Per Month (\$12.96 x4)	\$51.84
Total Number of Months Services Were Delivered	12
Total Ineligible Pre-Discounted Costs Billed for ELCs for FY 2016 (\$51.84 x 12)	\$622
Beneficiary's Discount Rate for Voice Services	40%
Total Discounted Costs Over-Invoiced to SLP (\$622 x 40%)	\$249
Total Cost Allocation for Ineligible Pre-K (\$3861 + \$249)	\$4,110

AAD RESPONSE

In its response, the Beneficiary stated that “[t]hese four [Early Learning Center] buildings are identified by the State of Indiana as Elementary Schools because they house Kindergarten students.” AAD concurs with the Beneficiary’s response. During the audit, documentation provided to and obtained by AAD did not demonstrate that the Early Learning Centers [ELCs] included students other than Pre-K students. However, in response to this finding, the Beneficiary provided additional documentation that demonstrated the ELCs included eligible Kindergarten students as well. Therefore, the locations are eligible but an allocation is necessary to allocate the ineligible Pre-K students from the cost of services supported by SLP funds.

In its response, for FRN 1699064129, the Beneficiary stated “[t]he District does not have a curriculum that includes Internet usage by Pre-K students” and, for FRN 1699037385, the Beneficiary stated “[s]tudents (including Pre-K students) do not use this service and so there is no reason to prorate the cost of the service provided to this building out of the total cost of this service.” In its *First Report and Order*, the FCC states that “schools and libraries receiving services at discounts funded under universal service support mechanisms... must [use the services] for ‘educational purposes.’”² FCC rules also state, “[a]ctivities that are integral, immediate, and proximate to the education of students... qualify as ‘educational purposes.’ Activities that occur on... school property are presumed to be integral, immediate, and proximate to the education of

² See *In the Matter of Federal-State Joint Board on Universal Service*, Report and Order, CC Docket No. 96-45, Order, 12 FCC Rcd 8776, 9066-67, para. 552 (May 8, 1997) (*First Report and Order*).

students...”³ In this instance, the direct utilization of the Internet access or voice services by the students does not define whether the services were used for educational purposes. Rather, the Internet access and voice services are services that customarily occur on school property, and are, therefore, used for education purposes for the students at the ELCs. Even if the ineligible students are not directly using the internet services, the school staff’s internet use for administrative and other purposes benefits the ineligible students. Thus, AAD does not concur with the Beneficiary’s response that “there is no reason to prorate the cost of the service provided to [the ELCs].”

AAD examined the documentation provided with the Beneficiary’s response and concurs that the documentation demonstrates the ELCs contained 414 Pre-K students and 955 Kindergarten students. The Beneficiary provided enrollment data obtained from the Indiana Department of Education’s E-rate Information page that identified 15,199 K-12 students, including the 955 located at the ELCs, enrolled during Funding Year 2016.⁴ This spreadsheet did not include the 414 Pre-K students in the enrollment.

In addition, AAD concurs with the Beneficiary’s response that “Special Education students as young as three years of age are eligible students in the State of Indiana (as noted on the Eligibility Table for Non-Traditional Education on the USAC website), so that changes the cost allocation calculations previously submitted.” According to the State of Indiana Administrative Code, Special Education programs in public schools include “[e]arly childhood programs for students who are at least three (3) years of age, but who are not enrolled in kindergarten.”⁵ The Beneficiary provided documentation demonstrating that 141 of the Pre-K students in the ELCs are Special Education students. Thus, 273 (414 – 141) of the Pre-K students are ineligible for SLP support and must be cost allocated. Therefore, the ineligible portion of Internet access services for FRN 1699064129 is 1.75 percent (273 / 15,613) and the ineligible portion of voice services at each ELC for FRN 1699037385 is 19.94 percent (273 / 1,369).

For the reasons above, AAD has amended the monetary effect of this finding, as follows:

FRN	1699064129
Total Pre-Discounted Costs	\$276,000
Beneficiary’s Discount Rate for Internet Access	80%
Total Discounted Costs Invoiced to SLP	\$220,800
Percent of Ineligible Pre-K Students	1.75%

³ 47 C.F.R. § 54.500; See also USAC’s website at <https://www.usac.org/sl/applicants/beforeyoubegin/eligible-services/educ-purposes.aspx> (USAC’s website states “[e]ligible activities for schools include, but are not limited to, the school-related activities of school administrators, school counselors, school nurses, school technology workers, cafeteria workers, and school bus drivers.”).

⁴ See *Fiscal Year 2016 FR with CEP* document on the Indiana Department of Education website: <https://www.doe.in.gov/elearning/e-rate-information>.

⁵ See *Indiana Administrative Code, Title 511, Indiana State Board of Education, Article 7. Special Education* (511 IAC 7-33-2) at [file:///C:/Users/csmith/Downloads/A00070%20\(1\).pdf](file:///C:/Users/csmith/Downloads/A00070%20(1).pdf).

Total Discounted Costs Over-Invoiced to SLP	\$3,861
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FRN	1699037385
Pre-Discounted Cost Per ELC Per Month	\$65
Total Number of ELCs	4
Total Pre-Discounted Costs Billed for ELCs Per Month	\$260
Total Number of Months Services Were Delivered	12
Total Pre-Discounted Costs Billed for ELCs for FY 2016	\$3,120
Beneficiary's Discount Rate for Voice Services	40%
Total Discounted Costs Invoiced to SLP	\$1,248
Percent of Ineligible Pre-K Students	19.94%
Total Discounted Costs Over-Invoiced to SLP	\$249

Therefore, AAD recommends USAC management seek recovery of \$4,110 (\$3,861 + \$249).

CRITERIA

Finding	Criteria	Description
#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	<i>In the Matter of Federal-State Joint Board on Universal Service, Report and Order, CC Docket No. 96-45, Order, 12 FCC Rcd 8776, 9066-67, para. 552 (May 8, 1997) (First Report and Order)</i>	To be considered eligible, schools must meet the statutory definition of an elementary or secondary school found in the Elementary and Secondary Education Act of 1965, must not operate as a for-profit business, and must not have an endowment exceeding \$50 million... [A]ny such services requested by schools and libraries must be used for “educational purposes.”
#1	47 C.F.R. § 54.500 (2015)	<i>Educational purposes.</i> For purposes of this subpart, 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.” Activities that occur on library or school property e presumed to be integral, immediate, and proximate to the education of students or the provision of library services to library patrons.



Universal Service
Administrative Co.

City on a Hill Charter Public School Dudley Square

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR071

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EXECUTIVE SUMMARY

January 16, 2019

Ms. Sally Bachofer, Executive Director
City on a Hill Charter Public School Dudley Square
2179 Washington Street
Roxbury, MA 02119

Dear Ms. Bachofer:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of City on a Hill Charter Public School Dudley Square (Beneficiary), Billed Entity Number (BEN) 16072878, 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. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

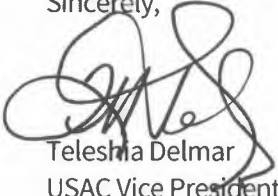
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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 AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination did not disclose any areas 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 Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Telesha Delmar', written over the printed name.

Telesha Delmar
USAC Vice President, Audit and Assurance Division

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

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
Internal Connections	\$31,454	\$31,454
Internet Access	\$42,120	\$20,303
Voice	\$16,623	\$6,068
Total	\$90,197	\$57,825

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). AAD selected three FRNs,¹ which represent \$60,884 of the funds committed and \$53,216 of the funds disbursed 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 public charter school located in Roxbury, Massachusetts that serves approximately 280 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD examined documentation to support its effective use of funding and that adequate controls exist to determine whether funds were used in accordance with the Rules. AAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive SLP funds. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

AAD obtained and examined documentation to determine whether the Beneficiary complied with the Schools and Libraries Program Children's Internet Protection Act (CIPA) requirements. Specifically, AAD

¹ The FRNs included in the scope of this audit were: 1699051207, 1699051256, and 1699051361.

obtained and evaluated the Beneficiary's Internet Safety Policy. AAD obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

B. Competitive Bid Process

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

C. Invoicing Process

AAD 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. AAD also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Site Visit

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

E. Reimbursement Process

AAD 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, AAD reviewed invoices associated with the BEAR and SPI forms for equipment and services provided to the Beneficiary. AAD 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.



Universal Service
Administrative Co.

Affiniti PA, LLC

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017SP081

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EXECUTIVE SUMMARY

February 4, 2019

Virginia A. Bryant, Vice President of Finance
Affiniti, PA LLC
9208 Waterford Centre Blvd
Austin, TX 78758

Dear Ms. Bryant:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Affiniti PA, LLC (Service Provider), Service Provider Identification Number (SPIN) 143023276, for Funding Year 2016, 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 Service Provider's management. AAD's responsibility is to make a determination regarding the Service Provider's compliance with the Rules based on the audit.

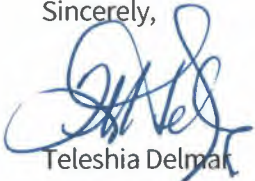
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the type and amount of services provided by the Service Provider to Schools and Libraries Program applicants (Beneficiaries), as well as performing other procedures AAD considered necessary to make a determination regarding the Service Provider's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination did not disclose any areas 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 Service Provider, and the Federal Communications Commission (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,



Teleshia Delmar
Vice President, Audit and Assurance Division

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

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Service Provider for Funding Year 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$2,795,477	\$2,683,202
Internal Connections	\$15,990	\$5,790
Voice	\$13,316	\$2,630
Total	\$2,824,783	\$2,691,622

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

The committed total represents 29 FCC Form 471 applications with 44 Funding Request Numbers (FRNs). AAD selected 6 FRNs, which represent \$1,724,546 of the funds committed and \$1,679,860 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiaries.

BACKGROUND

The Service Provider provides Internet access, internal connections, and voice services to customers in Pennsylvania and its headquarters are located in Austin, Texas.

PROCEDURES

AAD performed the following procedures:

A. Eligibility Process

AAD obtained an understanding of the Service Provider's processes and internal controls governing its participation in the Schools and Libraries Program. Specifically, AAD used inquiry of the Service Provider and the Beneficiaries and examined documentation to determine whether controls exist to ensure equipment and services were eligible, delivered, and installed in accordance with the Rules.

B. Billing Process

AAD reviewed the FCC Form 474 Service Provider Invoices (SPIs) for which payment was disbursed by USAC to determine whether the equipment and services identified on the SPIs, and corresponding service provider bills, were consistent with the terms and specifications of the Service Provider's contracts and eligible in accordance with the Schools and Libraries Program Eligible Services List. AAD also examined documentation to determine whether the Service Provider charged the Beneficiaries the lowest corresponding price charged for similar equipment and services to non-residential customers similarly situated to the Beneficiaries. In addition, AAD examined documentation to determine whether the Service

Provider billed the selected Beneficiaries for the non-discounted portion of eligible equipment and services purchased with universal service discounts and did not provide rebates, including free services or products.

C. Reimbursement Process

AAD obtained and examined the SPIs submitted for reimbursement for the equipment and services delivered to the Beneficiaries and performed procedures to determine whether USAC was invoiced properly. Specifically, AAD reviewed service provider bills associated with the SPIs for services provided to the Beneficiaries. AAD determined whether the Service Provider issued credits on the service provider bills to the Beneficiaries or whether the Service Provider remitted a check to the Beneficiaries within 20 days after receipt of the reimbursement payment from USAC.