Schools and Libraries Committee Meeting

Audit Briefing Book

Monday, January 28, 2019

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

Universal Service Administrative Company

700 12th Street NW, Suite 900

Washington, DC, 20005

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

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
The Academy Charter School **Attachment A**	4	• Inadequate Competitive Bidding Process**:** Beneficiary's FCC Form 470 did not contain sufficient information to enable bidders to reasonably determine that the Beneficiary was seeking bids for 300 Mbps and Beneficiary did not demonstrate price was the primary factor in selecting a service provider.	$26,150	$54,132	$39,783	$53,640	Y
Cheder Chabad Of Monsey Girls Elementary School	2	• Lack of Documentation -- Beneficiary Did Not Demonstrate the Use of a Technology Protection Measure: The Beneficiary did not provide documentation to demonstrate that a Technology Protection Measure was in use to protect against Internet access by adults and minors to visual depictions that are obscene, child pornography, or harmful to minors.	$0	$105,498	$0	$94,948	N

Entity Name	Number of Findings	Material Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment*	Entity Disagreement
Person County School District	0	• None	$1,018,305	$0	$0	$0	N
Beaufort County School District	0	• None	$512,922	$0	$0	$0	N
Wilson County School District	0	• None	$906,251	$0	$0	$0	N
Union County Public Schools	0	• None	$3,240,923	$0	$0	$0	N
Chavez/Huerta K-12 Preparatory Academy	1	• No material findings. **	$140,157	$0	$0	$0	N
Total	**7**		**$5,844,708**	**$159,630**	**$39,783**	**$148,588**	

* 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.

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

Universal Service
Administrative Co.

The Academy Charter School

Limited Review Audit on Compliance with the Federal Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR012

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EXECUTIVE SUMMARY

May 9, 2018

Wayne Haughton, Executive Director
The Academy Charter School
117 North Franklin Street
Hempstead, NY 11550

Dear Mr. Haughton:

The Universal Service Administrative Company (USAC or Administrator) Internal Audit Division (IAD) audited the compliance of The Academy Charter School (Beneficiary), Billed Entity Number (BEN) 16055831, using the regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. IAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the limited review audit.

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

Based on the test work performed, our examination disclosed four detailed audit findings (Findings) discussed in the Audit Results section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

for

Wayne M. Scott
Vice President, Internal Audit Division

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

AUDIT RESULTS

Audit Findings	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.503(a) (2015) – Inadequate Competitive Bidding Process. The Beneficiary's FCC Form 470 did not contain sufficient information to enable bidders to reasonably determine that the Beneficiary was seeking bids for 300 Mbps and the Beneficiary did not demonstrate price was the primary factor in selecting a service provider.	$53,640	$39,291	$53,640
Finding #2: 47 C.F.R. § 54.502(a) (2015) - Beneficiary Over-Invoiced SLP for Unapproved, Ineligible Services. Maintenance was not requested in the Beneficiary's FCC Form 471 nor approved and committed by SLP in the Beneficiary's Funding Commitment Decision Letter (FCDL) for FRN 1699090033.	$492	$492	$0
Finding #3: 47 C.F.R. § 54.505(b)(1) (2015) - Inadequate Discount Calculation Process – Documentation Did Not Match Amounts Reported on the FCC Form 471. The total enrollment data and the number of students eligible for NSLP listed on the NYSDE website did not match the data the Beneficiary reported in its FCC Form 471.	$0	$0	$0
Finding #4: 47 C.F.R. § 54.520(c)(1) and 47 C.F.R. § 54.520(h) (2015) - Failure to Comply with CIPA Requirements: Missing Internet Safety Policy Elements and Lack of Public Notice. The Beneficiary did not address all of the required Internet Safety Policy (ISP) elements and did not provide documentation that a public notice was provided for the public meeting held to discuss the ISP.	$ 0	$0	$0
Total Net Monetary Effect	$54,132	$39,783	$53,640

USAC MANAGEMENT RESPONSE

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

USAC directs the Beneficiary to USAC's website under Reference Area for "Competitive Bidding" available at (https://www.usac.org/sl/applicants/step01/default.aspx), "Invoicing – Applicants" available at (http://www.usac.org/sl/applicants/step06/default.aspx), "Discount Calculations" available at (https://www.usac.org/sl/applicants/step03/discounts.aspx), and the "Children's Internet Protection Act" available at (https://www.usac.org/sl/applicants/step05/cipa.aspx).

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

Funding Request Number	USAC Recovery Amount for Findings 1 and 2	USAC Commitment Adjustment Amount for Findings 1 and 2
1699035991	$39,291	$14,349
1699090033	$492	$0
Total	**$39,783**	**$14,349**

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	$26,150	$26,150
Internet Access	$109,444	$0
Voice	$17,612	$0
Total	**$153,206**	**$26,150**

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

The committed total represents three FCC Form 471 applications with 13 Funding Request Numbers (FRNs). IAD selected four FRNs, which represent $110,941 of the funds committed and $21,233 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 Hempstead, New York that serves over 800 students.

PROCEDURES

IAD performed the following procedures:

A. Application Process

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

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

B. Competitive Bid Process

IAD 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. IAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. IAD evaluated the equipment and services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

IAD obtained and examined invoices submitted for reimbursement for the equipment and services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, IAD reviewed invoices associated with the SPI forms for equipment and services provided to the Beneficiary. IAD 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.

Finding #1: 47 C.F.R. § 54.503(a) – Inadequate Competitive Bidding Process

CONDITION

IAD obtained and examined documentation, including the FCC Form 470 *Schools and Libraries Universal Service Description of Services Requested and Certification Form* and the service provider bids responding to the requested services, to determine whether the Beneficiary conducted a fair and open competitive bidding process for FRN 1699035991. In its FCC Form 470, the Beneficiary's request for Internet access services included "Internet Access: ISP Service Only" with 10 Mbps minimum capacity and 100 Mbps maximum capacity, "Internet Access and Transport Bundled" with 25 Mbps minimum capacity and 200 Mbps maximum capacity, and "Internet Access: ISP Service Only" with 50 Mbps minimum capacity and 200 Mbps maximum capacity to be utilized in different locations.

Metro Optical submitted a bid proposing 300 Mbps Internet access for a monthly recurring cost of $4,800 for two existing locations plus $2,000 in non-recurring costs. Cablevision Lightpath submitted a bid proposing 150 Mbps or 300 Mbps Internet access for a monthly recurring cost of $4,400 or $4,800, respectively. Windstream submitted a bid proposing 100 Mbps Internet Access for a monthly recurring cost of $3,861. The Beneficiary evaluated the bid proposals and selected Metro Optical to provide 300 Mbps Internet access services, and the Beneficiary requested 300 Mbps in its FCC Form 471, which SLP approved in the Funding Commitment Decision Letter for FRN 1699035991.

The Beneficiary informed IAD that it did not select Windstream as its service provider because the "school decided to go with 300 megs [and] is not going with [Cablevision] LightPath because of the customer service."[1] The Beneficiary selected Metro Optical as its service provider to provide 300 Mbps even though the Beneficiary did not request speeds up to 300 Mbps on its FCC Form 470. Hence, the Beneficiary's FCC Form 470 did not contain sufficient information to enable bidders to reasonably determine that the Beneficiary was seeking bids for 300 Mbps. Further, Metro Optical offered speeds of only 300 Mbps and did not offer a service speed that was requested on the Beneficiary's FCC Form 470.[2]

In addition, the Beneficiary did not conduct its bid evaluation to select the most cost-effective service offering using price of eligible services as the primary factor.[3] The only documentation provided by the Beneficiary were emails, as noted above, explaining the Beneficiary's rationale for selecting Metro Optical based on speed and customer service. The documentation did not demonstrate that price was the primary factor since the documentation did not include a comparison of prices and did not include criteria with assigned weights demonstrating that price was the most heavily weighted factor. The Beneficiary did not select Windstream as its service provider even though Windstream offered Internet access within the service speeds requested in the Beneficiary's FCC Form 470 and provided the lowest cost bid. Instead, the Beneficiary selected Metro Optical even though Metro Optical submitted the highest cost bid.

Because the Beneficiary did not request speeds up to 300 Mbps, the Beneficiary's FCC Form 470 did not contain sufficient information to enable bidders to reasonably determine that the Beneficiary was seeking bids for 300 Mbps. In addition, because the Beneficiary did not perform a bid evaluation comparing the price of eligible services, the Beneficiary did not demonstrate price was the primary factor in selecting a service provider. For these reasons, IAD cannot conclude that the Beneficiary conducted a fair and open competitive bidding process or selected the most cost-effective service offering using price of the eligible services as the primary factor.

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[1] Email to IAD from Janice Meyers, The Academy Charter School's consultant (Apr. 10, 2017).

[2] 47 C.F.R. § 54.503(c)(1) (2015).

[3] 47 C.F.R. § 54.504(a)(1)(ix) (2015).

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the competitive bidding process. The Beneficiary believed that it could select a higher speed of Internet access services if offered by a potential service provider and did not review the Rules on providing sufficient information to enable bidders to reasonably determine the needs of the Beneficiary. In addition, the Beneficiary based its final decision between the two service providers offering 300 Mbps on customer service without consideration of price.

EFFECT

The monetary effect for this finding is $53,640. This amount represents the full amount committed by SLP for FRN 1699035991. There were no disbursements from SLP for this FRN as of the commencement of the audit; however, as of February 6, 2018, SLP disbursed a total of $39,291 for this FRN.

RECOMMENDATION

IAD recommends USAC management seek recovery of $39,291 and issue a downward commitment adjustment for $53,640. The Beneficiary must implement controls and procedures to ensure it conducts a fair and open competitive bidding process by providing potential service providers with an opportunity to submit a bid proposal based on the needs of the Beneficiary and ensuring it provides sufficient information to enable potential bidders to reasonably determine the needs of the Beneficiary. In addition, the Beneficiary must implement controls and procedures to ensure it selects the most cost-effective service offering using price of eligible services as the primary factor. IAD also recommends the Beneficiary examine the Rules to familiarize itself with the Rules governing the performance of a fair and open competitive bidding process.

BENEFICIARY RESPONSE

The Academy Charter School posted form 470 # 160005307 for the following Internet services.

Internet Access and/or Telecommunications	Internet Access: Service Only	ISP	1	10 Mbps	100 Mbps	No	No
Internet Access and/or Telecommunications	Internet Access and Transport Bundled	1	2 Circuits	25 Mbps	200 Mbps	Yes	Yes

Category One Narrative

Commercial internet access 10/100 with cable modem in two locations

Internet access cable or fiber with managed router or modem with Voice bundle in 2 locations. 2 or 3 year contract with escalation clause

Internet access cable or fiber with managed router two school locations 2 or 3 year contract with escalation clause

The Academy Charter School was asking for pricing for a MTM cable solution in two building[s]. They filed for Internet Access ISP only for 10/100 Megs for Commercial internet access with a cable modem such as Time Warner or Cablevision. Since Cablevision is the only vendor that is capable of suppling service to the schools, The Academy Charter School went with Cablevision.

The Academy Charter School signed a contract with Lightpath that expired on 6/30/2017 for 100/100 Megs of Fiber Internet access. The school desperately needed an increase in bandwidth to accommodate online testing and a 1:1 iPad initiative. A [FCC Form] 470 was filed asking for 25 to 200 Megs of Internet access, either fiber or cable modem. Three quotes were received. See the attached bid analysis. Metro Optical and Lightpath both quoted a fiber solution of 150 and 300 Megs. Windstream quoted 100 Megs of EoC- Ethernet over Copper. When the consultant questioned Metro Optical and Lightpath why they did not quote on 200 Megs, both vendors replied they only offered 150/300/500 Meg packages. Windstream could not quote over 100 Megs because their product- EoC was not capable of that speed. At that time Lightpath was the only fiber company to serve that area of Long Island, so Windstream could not subcontract the service out. The school needed more than 100 Megs. The form 470 asked for cable or fiber- not Ethernet over Copper which is not scalable. The school completed a bid analysis comparing the bid responses. Windstream quoted $ 1,930.42 for 100 Megs of CoE. The school currently had 100 Megs and it was not enough for students to complete their work. Metro Optical and Windstream quoted 150 Megs of Fiber at $ 2,000 and $ 2,200 respectively. Metro Optical also quoted a $ 1,000 install charge because they had to do a fiber build out to the school. Both Metro Optical and Lightpath quoted 300 Megs of fiber at $ 2,400. The Academy Charter School selected Metro Optical because of customer service problems with LightPath in the past.

E-Rate Bid Assessment

Funding Year 2016-17

The Academy Charter School - Interent

VENDOR SCORING

Specifications	**Lightpath**			**Metro Optical**			**Windstream**		
									Install
Bandwidth 100 Megs		exisitng vendor				Install	$1,930.42		
		Install				new fiber construction			no
Bandwidth 150 Megs	$2,200.00	no			$2,000.00				
						$1,000.00			
Bandwidth 300 Megs	$2,400.00								
		no			$2,400.00	$1,000.00			
Fiber	yes			yes			NO		EoC
Router	yes			yes			yes		
Scalability		yes		yes			no		
	Lightpath			**Metro Optical**			**Windstream**		
		Raw			Raw	Weighted		Raw	Weighted
Industry Credentials and Certifications	**Weight***	**Score****	**Score*****	**Weight***	**Score****	**Score*****	**Weight***	**Score****	**Score*****
Prices/Charges	30	3.8	114	30	3.8	114	30	3	90
Prior Experience Implementing and Maintaining School Networks and service	25	1.5	37.5	25	3.5	87.5	25	3.5	87.5
meeting criteria of requests	25	3.5	87.5	25	3.5	87.5	25	1	25
Long Term Experience in K-12 E-RATE	20	3	60	20	3	60	20	3	60
* Percentage weights must add up to 100%. Price must be weighted the heaviest.			299			349			262.5

IAD RESPONSE

As stated in the Beneficiary's response, in its FCC Form 470, the Beneficiary requested "25 to 200 Megs of Internet access, either fiber or cable modem." Further, in its response, the Beneficiary stated "Metro Optical and Lightpath both quoted a fiber solution of 150 and 300 Megs." The Beneficiary selected Metro Optical's bid for 300 Mbps. As stated in the Condition section above and in the Beneficiary's response, the Beneficiary received bids for services within the speeds requested in its FCC Form 470, yet, the Beneficiary selected a service provider for a speed in excess of the speeds it requested. To maintain a fair and open competitive bidding process, the Beneficiary must determine its telecommunications needs and seek and evaluate proposals based on its needs. If the Beneficiary's needs changes, the Beneficiary should resubmit a new FCC Form 470 and issue a revised Request for Proposal to ensure that all potential service providers understand the Beneficiary's needs and can submit a proper bid so the Beneficiary can assess whether each potential service provider's bid is cost-effective. Also, as stated in a note to paragraph (a) of 47 C.F.R. § 54.503, when the applicant's FCC Form 470 does not describe the supported services with sufficient specificity to enable interested service providers to submit responsive bids, it results in an activity that would not result in a fair and open competitive bidding process.

In addition, on several occasions throughout the audit, IAD requested the Beneficiary to provide whatever documentation it had to demonstrate that it performed a bid evaluation comparing the price of eligible services. The Beneficiary only provided emails explaining its rationale for selecting Metro Optical, as outlined in the Condition section above. The Beneficiary never provided or suggested there was a spreadsheet that demonstrated its comparison of the service provider bids it received. Further, well before the Beneficiary received the written audit finding for review and response, IAD informed the Beneficiary about the details of this audit finding. Even still, the Beneficiary never informed IAD that it had a bid analysis spreadsheet or any other documentation demonstrating that it conducted a bid evaluation comparing the price of eligible services. Now that the audit is complete, the Beneficiary is providing a bid analysis with its response to the written finding.

Pursuant to 47 C.F.R. § 54.702(n), IAD must conduct audits of beneficiaries in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires auditors to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions.[4] In assessing the appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable.[5] GAGAS also requires auditors to exercise professional judgment, which includes exercising reasonable care and professional skepticism.[6] Further, GAGAS requires auditors to consider the risk level of each assignment, including the risk that auditors may arrive at an improper conclusion.[7] IAD exercised professional judgment and considered the risk that IAD may come to an improper conclusion if it accepts this bid analysis because this information was not disclosed during the several attempts for documentation made throughout the audit. Because of the concerns discussed above, IAD does not consider the bid analysis to be sufficient, appropriate evidence as IAD is unable to conclude that the bid analysis is valid and reliable evidence that a proper bid evaluation was performed.

Even upon our review of the Beneficiary's bid analysis spreadsheet, the bid analysis still does not demonstrate that the Beneficiary selected the most cost-effective service offering using price as the primary factor. First, the costs identified by the Beneficiary in the bid analysis are only one-half of the cost quoted by each service provider in their respective bids. Second, although the Beneficiary identifies Windstream as the cheapest service offering, Windstream was awarded the least favorable score in the cost criterion. Third, Lightpath and Metro Optical were awarded the same score in the cost criterion even though Metro Optical's quote ($4,800 recurring + $2,000 non-recurring) was more expensive than Lightpath's quote ($4,800 recurring + $0 non-recurring). The Beneficiary's bid analysis does not demonstrate the Beneficiary conducted a fair and open competitive bidding process or selected the most cost-effective service offering using price of the eligible services as the primary factor.

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[4] *See* GAO-12-331G Government Auditing Standards, 6.56.
[5] *Id.* at 6.57.
[6] *Id.* **at 3.61.**
[7] *Id.* at 3.67.

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

Finding #2: 47 C.F.R. § 54.502(a) - Beneficiary Over-Invoiced SLP for Unapproved, Ineligible Services

CONDITION

IAD obtained and examined the FCC Form 472 Billed Entity Applicant Reimbursement (BEAR) form and the corresponding service provider bills provided by the Beneficiary to determine whether the Schools and Libraries Program (SLP) was invoiced only for eligible services for FRN 1699090033. In its FCC Form 471, the Beneficiary requested and received a commitment from SLP for Category 1 voice services. In IAD's review of the service provider bills, the Beneficiary was billed for "Maintenance." In accordance with 47 C.F.R. § 54.502(a), maintenance is a Category 2 service, which was not requested in the Beneficiary's FCC Form 471 nor approved and committed by SLP in the Beneficiary's Funding Commitment Decision Letter (FCDL) for FRN 1699090033.[8] Therefore, the maintenance services were not eligible for SLP support.

The Beneficiary invoiced SLP on the BEAR form no. 2528135 for a total pre-discounted amount of $3,725 for FRN 1699090033. The pre-discounted amount the service provider charged for "Maintenance" was $193 per month for July 2016 through October 2016 and $212 for November 2016. The total pre-discounted amount that was over-invoiced to SLP is $984 ($193 * 4 months + $212) for FRN 1699090033. Thus, the Beneficiary over-invoiced SLP by seeking reimbursement of discounted services of $492 ($984 * the Beneficiary's 50 percent discount rate).

CAUSE

The Beneficiary did not have adequate controls and procedures in place to ensure that SLP is invoiced only for the discounted costs of approved, eligible charges received from and billed by the service provider. In addition, the Beneficiary did not perform a thorough review of the service provider bills to determine the actual services billed to the Beneficiary and did not compare those services to the *Schools and Libraries Program Eligible Services List* to ensure the services billed to SLP were eligible.

EFFECT

The monetary effect of this finding is $492. This amount represents the total discounted costs of the unapproved, ineligible services that were invoiced to and disbursed by SLP for FRN 1699090033.

RECOMMENDATION

IAD recommends USAC management seek recovery of $492. The Beneficiary must implement controls and procedures to ensure that SLP is invoiced only for eligible services that are requested on the FCC Form 471 and approved and committed in an FCDL.

BENEFICIARY RESPONSE

The Academy Charter School signed a contract with Star2Star for VoIP on April 28, 2016. It was our understanding that the maintenance of this service was included as a component of the VoIP[,] not a separate service. This is similar to a

[8] ***See also*** 47 C.F.R. § 54.504(a).

contract with a voice carrier or ISP. If the circuit goes down, the vendor is responsible for getting [the] circuit up and running-basic maintenance. It is a necessary component of the monthly reoccurring charge.

See below from the Terms and Conditions of the contract.

MAINTENANCE AND SUPPORT

Description
Star2Star provides a comprehensive maintenance and support program for each Subscriber which includes software upgrades to core system infrastructure and StarSystem Components, the storage of Subscriber's StarSystem configurations network reliability for voice services and replacement of Covered Components (as defined below).

Covered Components
Star2Star shall maintain and support the StarSystem Components listed as "Covered" on the StarSystem Components table attached as Exhibit 1 (the "Covered" Components"). Star2Star's maintenance and support does not cover StarSystem Components listed as "Not Covered" in the StarSystem Components table. Please refer to manufacturer's information for warranty details for any StarSystem Components that are Not Covered.

Technical Support
Star2Star provides technical support, via phone and email at no additional charge, to respond to and remediate problems associated with Covered Components, call quality or call completion problems. Problems may be reported via email at support@Star2Star.com, by dialing *2* (Star2Star as spelled out on your phone by dialing the * and 2 keys) or calling 844-302-STAR (7827). Upon receipt of a reported problem, Star2Star will generate a response, within fifteen (15) minutes for a total voice services outage or within four (4) hours for all other issues, acknowledging receipt of the report. Star2Star does not guarantee that any reported problem will be resolved within that period. Star2Star provides support for system outages 24 hours per day 7 days per week on every day of the year. Star2Star provides support for non-outage related technical issues during Star2Start's Technical Support Hours with are from 6:00 A.M. to 11:00 P.M. eastern time on Business Days, from 9:00 A.M. to 10:00 P.M. on Saturday, and from 9:00 A.M. to 6:00 P.M. on Sunday. Start2Star's Business Days are days other than a Saturday, Sunday, federal holiday or any day Star2Star is or is required to be closed.

IAD RESPONSE

In its response, the Beneficiary states "[i]t was our understanding that the maintenance of this service was included as a component of the VoIP[,] not a separate service." During the audit, IAD met with the Beneficiary's consultant and IAD and the consultant worked collectively to reconcile the service provider's bills and contract to the FCC Form 471 and determined that the cost for the maintenance did not appear to be included in the cost of services requested in the Beneficiary's FCC Form 471. The Beneficiary's contracted monthly recurring cost of $1,134 was more than the monthly recurring cost of $712 that was requested in the Beneficiary's FCC Form 471. Upon reconciling the activity in the contract with the Beneficiary's consultant, the cost requested in the FCC Form 471 appears to include only the user application license, StarWatch Monitoring and Support, the voice plan, and volume discounts. It does not include the separate "Monthly Maintenance" quoted in the contract, which was billed to the Beneficiary and included in the invoice to SLP. For this reason, IAD's position on this finding remains unchanged.

Finding #3: 47 C.F.R. § 54.505(b)(1) – Inadequate Discount Calculation Process – Documentation Did Not Match Amounts Reported on the FCC Form 471

CONDITION

IAD obtained and examined documentation to determine whether the Beneficiary properly calculated its discount percentage for FRNs 1699035991, 1699090033, 1699090038, and 1699091783. To substantiate its discount calculation in its FCC Form 471, the Beneficiary informed IAD that it used the "CEP [Community Eligibility Program] ... online for NYSDE [New York State Department of Education]."[9] However, the total enrollment data and the number of students eligible for NSLP listed on the NYSDE website did not match the data the Beneficiary reported in its FCC Form 471.[10] However, IAD was able to verify the accuracy of the Beneficiary's discount percentage in its FCC Form 471 by recalculating the discount percentage using the data reported by the NYSDE.

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 NYSDE to maintain the data provided by the Beneficiary at the time the Beneficiary filed the FCC Form 471 and could not explain why the data obtained from the NYSDE did not agree to the FCC Form 471.

EFFECT

There is no monetary effect for this finding as IAD was able to recalculate the discount percentage and determined the Beneficiary's discount percentage remained the same. However, by not having sufficient controls in place to calculate the discount percentage, there is an increased risk that the Beneficiary may not be in compliance with the Rules.

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure that a sufficient review of the underlying documentation is performed to verify the information reported on the FCC Form 471, prior to submitting the forms to SLP.

BENEFICIARY RESPONSE

The Academy Charter School mistakenly listed the CEP method of reimbursement in the EPC profile. This was an M& C error. We have changed this in EPC. The numbers listed on the NYSDE website are a year behind the actual numbers. The NYSDE lists the numbers from October 1, 2015 for the 2016 funding year.

This was not an issue until the 7th Order and Report when the school needed to have accurate records for the 5 year E-rate budget. The numbers listed- 989 and 889 are the actual numbers of total enrollment and free/reduced.

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[9] Beneficiary's response to IAD's *Process Interview Questionnaire* in an email to IAD from Janice Meyers, Consultant (April 05, 2017).

[10] The Beneficiary listed its total enrollment as 989 and 889 as the number of students eligible for free and reduced lunch on its FCC Form 471; however, the NYSDE listed the Beneficiary's total enrollment as 800 and 615 as the number of students eligible for free and reduced lunch.

Finding #4: 47 CFR § 54.520(c)(1) and 47 CFR § 54.520(h) – Failure to Comply with CIPA Requirements - Missing Internet Safety Policy Elements and Lack of Public Notice

CONDITION

IAD requested, obtained in part, and examined documentation to determine whether the Beneficiary complied with the Children's Internet Protection Act (CIPA) requirements for FRNs 1699035991, 1699090033, and 1699091783. IAD reviewed the Internet Safety Policy (ISP) provided by the Beneficiary and noted that the ISP did not address the required Internet safety elements listed below:

- The safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications;
- Unauthorized access, including so-called "hacking," and other unlawful activities by minors online; and
- 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 provided documentation that a public meeting or hearing was held to discuss the ISP but did not demonstrate that a reasonable public notice was provided for the public meeting or hearing. For these reasons, IAD 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 technology protection measure to monitor Internet content, the Beneficiary was in substantial compliance with the spirit of the CIPA requirements.[11]

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the Internet safety 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 compliance were properly retained. The Beneficiary did not have personnel that utilized the training materials provided by SLP regarding CIPA requirements as necessary.

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 FRNs 1699035991, 1699090033, and 1699091783, the Beneficiary substantially complied with the spirit of the CIPA requirements.

RECOMMENDATION

The Beneficiary must update its ISP to ensure all required Internet safety elements are included. In addition, 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 and ensure that all elements are addressed in the ISP as required by the Rules. Further, IAD 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.

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[11] *See* Letter from Dana R. Shaffer, Chief, Wireline Competition Bureau to Scott Barash, Acting Chief Executive Officer, USAC, WC Docket No. 02-6, DA-09-86, 24 FCC Rcd. 417 (Jan. 16, 2009).

BENEFICIARY RESPONSE

The Academy Charter School has tried to insure CIPA compliance for all staff and students. We were unaware that a public notice or hearing was needed every year to demonstrate CIPA compliance. We will incorporate that into our procedures.

IAD RESPONSE

The Beneficiary stated in its response that "[w]e were unaware that a public notice or hearing was needed every year to demonstrate CIPA compliance." IAD clarifies that a public notice or hearing is not needed every year. The Beneficiary must "hold at least one [emphasis added] public hearing or meeting to address a proposed technology protection measure and Internet safety policy... [and] [a]dditional meetings are not necessary – even if the policy is amended – unless those meetings are required by state or local rules or the policy itself."[12] In this instance, the Beneficiary did not provide documentation demonstrating it provided reasonable public notice for its public meeting or hearing. For this reason, our position on this finding remains unchanged.

[12] *See* USAC's website at https://www.usac.org/sl/applicants/step05/cipa.aspx.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.503(a) (2015)	All entities participating in the schools and libraries universal service support program must conduct a fair and open competitive bidding process, consistent with all requirements set forth in this subpart.
#1	47 C.F.R. § 54.503(c)(1) (2015)	An eligible school, library, or consortium that includes an eligible school or library seeking bids for eligible services under this subpart shall submit a completed FCC Form 470 to the Administrator to initiate the competitive bidding process. The FCC Form 470 and any request for proposal cited in the FCC Form 470 shall include, at a minimum, the following information: (i) A list of specified services for which the school, library, or consortium requests bids; (ii) Sufficient information to enable bidders to reasonably determine the needs of the applicant….
#1	47 C.F.R. § 54.504(a)(1)(ix) (2015)	Except as exempted by § 54.503(e), all bids submitted to a school, library, or consortium seeking eligible services were carefully considered and the most cost-effective bid was selected in accordance with § 54.503 of this subpart, with price being the primary factor considered, and it is the most cost-effective means of meeting educational needs and technology goals.
#2	47 C.F.R. § 54.502(a) (2015)	All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes.…. The supported services fall within the following general categories: (1) *Category one*. Telecommunications services, telecommunications, and Internet access, as defined in §54.5 and described in the Eligible Services List are category one supported services. (2) *Category two*. Internal connections, basic maintenance and managed internal broadband services as defined in §54.500 and described in the Eligible Services List are category two supported services.
#3	47 C.F.R. § 54.505(b)(1) (2015)	For schools and school districts, the level of poverty shall be based on the percentage of the student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism. School districts shall divide the total number of students eligible for the National School Lunch Program within the school district by the total number of students within the school district to arrive at a percentage of students eligible.

		This percentage rate shall then be applied to the discount matrix to set a discount rate for the supported services purchased by all schools within the school district. Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.
#4	47 C.F.R. § 54.520(c)(1) (2015)	(i) The Internet safety policy adopted and enforced pursuant to 47 U.S.C. 254(h) must include a technology protection measure that protects against Internet access by both adults and minors to visual depictions that are obscene, child pornography, or, with respect to use of the computers by minors, harmful to minors. The school must enforce the operation of the technology protection measure during use of its computers with Internet access, although an administrator, supervisor, or other person authorized by the certifying authority under paragraph (a)(1) of this section may disable the technology protection measure concerned, during use by an adult, to enable access for bona fide research or other lawful purpose. This Internet safety policy must also include monitoring the online activities of minors. Beginning July 1, 2012, schools' Internet safety policies must provide for educating minors about appropriate online behavior, including interacting with other individuals on social networking Web sites and in chat rooms and cyberbullying awareness and response. (ii) The Internet safety policy adopted and enforced pursuant to 47 U.S.C. 254(l) must address all of the following issues: (A) Access by minors to inappropriate matter on the Internet and World Wide Web, (B) The safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications, (C) Unauthorized access, including so-called "hacking," and other unlawful activities by minors online; (D) Unauthorized disclosure, use, and dissemination of personal information regarding minors; and (E) Measures designed to restrict minors' access to materials harmful to minors.
#4	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.

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: November 1, 2018 – November 30, 2018

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action*	Commitment Adjustment	Entity Disagreement
Granville County School District	0	• No findings.	$2,504,605	$0	$0	$0	N
New Hanover County Board of Education	0	• No findings.	$1,058,030	$0	$0	$0	N
Lenoir County Public Schools	0	• No findings.	$951,009	$0	$0	$0	N
Total	**0**		**$4,513,644**	**$0**	**$0**	**$0**	

* 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.

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Cheder Chabad of Monsey Boys **Attachment B**	5	• Beneficiary Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students. The Beneficiary requested and received funding for internet access point-to-point services that connected to an ineligible location and did not allocate costs incurred for ineligible students. • Beneficiary Over-Invoiced SLP for Duplicate Services. The Beneficiary requested duplicative funding for internet services.	$1,825	$38,131	$35,565	$35,565	Y
Congregation OHR Menachem **Attachment C**	4	• Lack of Documentation – Service Provider Did Not Demonstrate Eligible Services Were Provided. The Beneficiary requested managed internal broadband services (MIBS) on its Form 470 and Form 471; however, the Beneficiary was unable to demonstrate that the services	$17,105	$10,601	$3,526	$11,778	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
		received corresponded to those requested and approved. • Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Locations. The Beneficiary's service providers invoiced the SLP for ineligible locations for three FRNs.					
Erie Rise Leadership Academy Charter School **Attachment D**	6	• Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process. The Beneficiary did not conduct a fair and open competitive bidding process, as it did not properly solicit bids when cardinal changes were made to its requirements. • Inadequate Competitive Bidding Evaluation Process. The Beneficiary did not adhere to an adequate competitive bidding evaluation process when awarding contracts.	$18,570	$50,154	$44,083	$3,231	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
State of Hawaii Department of Education	0	• None.	$9,598,825	$0	$0	$0	N
Bais Chaya Mushka	0	• None.	$0	$0	$0	$0	N
Omega Technology Center	0	• None.	$284,266	$0	$0	$0	N
Lenoir County Public Schools	0	• None.	$184,410	$0	$0	$0	N
Total	**15**		**$10,105,001**	**$98,886**	**$83,174**	**$50,574**	

* The “Monetary Effect” amount may exceed the “USAC Management Recovery Action” and/or “Commitment Adjustment” 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.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

CHEDER CHABAD OF MONSEY BOYS

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

USAC AUDIT NO. SL2017BE052

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SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

October 21, 2018

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

Dear Mr. Scott:

Cotton & Company LLP (referred to as "we") audited the compliance of Cheder Chabad of Monsey Boys (Beneficiary), Billed Entity Number (BEN) 16056274, using regulations and orders governing the federal Universal Service Schools and Libraries Program (SLP), set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

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

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

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

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

Audit Results and Commitment Adjustment/Recovery Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding #1, 47 C.F.R. §54.501 – Beneficiary Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students. The Beneficiary requested and received funding for internet access point-to-point services that connected to an ineligible location and did not allocate costs incurred for ineligible students.	$16,152	$0	$0	$16,152
Finding #2, Second Report & Order, CC Docket No. 02-6, 18 FCC, Rcd 9202, 9209-10, paras 22-24 –	$14,133	$0	$0	$14,133

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

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

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

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Beneficiary Over-Invoiced SLP for Duplicate Services. The Beneficiary requested duplicative funding for internet services.				
Finding #3, 47 C.F.R. § 54.516(a)(2) – Lack of Documentation – Service Provider Did Not Demonstrate Eligible Services Were Provided. The Beneficiary requested managed internal broadband services (MIBS) under FRN 1699121157 on its Form 470 and Form 471; however, it was unable to support that the services received corresponded to those requested and approved.	$5,280	$0	$0	$5,280
Finding #4, 47 C.F.R. §54.502(b) – Beneficiary Inaccurately Calculated Category 2 Budget. The Beneficiary included ineligible students in its student enrollment count on its Funding Year 2016 FCC Form 471. This error did not impact the Beneficiary's discount rate percentage; however, it did impact the Beneficiary's five-year Category 2 budget.	$2,566	$0	$0	$0
Finding #5, Fifth Report and Order – Untimely Payment of Beneficiary's Non-Discounted Share to Service Provider. The Beneficiary was not timely in paying its non-discounted share for services	<u>$0</u>	<u>$0</u>	<u>$0</u>	<u>$0</u>

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
received under its voice and internet access FRNs.				
Total Net Monetary Effect	**$38,131**	**$0**	**$0**	**$35,565**

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

USAC will request that the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC directs the Beneficiary and Service Provider to USAC's website under "Reference Area" for guidance on Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/default.aspx), Document Retention available at (https://www.usac.org/sl/tools/document-retention.aspx), Category Two Budget available at (https://www.usac.org/sl/applicants/step03/category-two-budget.aspx), Obligation to Pay available at (https://www.usac.org/sl/applicants/step06/obligation-to-pay.aspx), and Common Audit Findings available at (https://www.usac.org/about/about/program-integrity/findings/common-audit-sl.aspx#).

Further, USAC recommends the Beneficiary and Service Provider subscribe to USAC's weekly News Brief which provides program participants with valuable information. Enrollment can be made through USAC's website under "Trainings and Outreach" available at (http://www.usac.org/sl/tools/news-briefs/Default.aspx).

FRN	Recovery Amount	Commitment Adjustment Amount
1699119215	$0	$16,152
1699055144	$0	$14,133
1699121157	$0	$5,280
Total	**$0**	**$35,565**

Purpose, Background, Scope, and Procedures
The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2016. The Beneficiary is a private school located in Spring Valley, New York that serves more than 150 students.

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

Service Type	Amount Committed	Amount Disbursed
Managed Internal Broadband Services	$5,280	$0
Internet Access	$124,853	$1,536
Voice	$17,692	$289
Total	**$147,825**	**$1,825**

The "amount committed" total represents five FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2016 that resulted in ten Funding Request Numbers (FRNs). We selected a sample of nine of the FRNs, which represent $147,464 of the funds committed and $1,825 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

A. Application Process

We obtained an understanding of the Beneficiary's processes relating to the SLP. Specifically, to determine if the Beneficiary used the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We performed inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

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

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly selected a service provider that provided eligible services, and 2) primarily considered the price of the eligible services and goods in selecting the service provider. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. In addition, we evaluated the cost-effectiveness of the equipment and services requested and purchased.

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 472, *Billed Entity Applicant Reimbursements (BEARs)*; FCC Form 474, *Service Provider Invoices (SPIs)*;

and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

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

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

Detailed Audit Findings

Finding No. 1, 47 C.F.R. §54.501 – Beneficiary Over-Invoiced SLP Support for Services Delivered to Ineligible Locations and Ineligible Students

Condition
The Beneficiary requested and received funding for ineligible locations and did not allocate costs for ineligible students. The Beneficiary requested and received funding for internet access point-to-point services under FRN 1699119215. The approved FCC Form 470 Application No. 160014837 described the services as "Internet Access and/or Telecommunication, Internet Access and Transport Bundled 25 Megabits per second\25 Megabits per second" for one entity. The Beneficiary noted "point to point" in the narrative section of the Form 470 but did not provide context. The approved FCC Form 471 described the services as "Copper Ethernet Data Connection between two or more sites entirely within the applicant's network 10 up\10 down Megabits per second, All Buildings." The FCC Form 471 indicated that the point-to-point services connected the Beneficiary to Cheder Chabad of Monsey Girls (Monsey Girls), its sister school located at a different address, and we confirmed this understanding during a discussion with the Beneficiary on June 14, 2018. However, Monsey Girls has its own BEN, 16063023, and it separately applied for and received SLP funding in Funding Year (FY) 2016. As such, the Monsey Girls location and students are not eligible to receive services under FRN 1699119125. The Beneficiary did not allocate for these ineligible recipients when requesting and receiving funding for these services.

The Beneficiary entered into a contract with Gladesmore Telecom (Service Provider) on May 24, 2016, for "10 MG PTP" at a monthly pre-discount cost of $2,629, for a total pre-discount cost of $31,548 ($25,238 when discounted at the Beneficiary's 80 percent discount rate). On July 1, 2016, the Service Provider billed the Beneficiary for the non-discounted portion of the point-to-point circuit. The bill did not identify or allocate costs related to the ineligible Monsey Girls students and location.

The SLP had not made any disbursements as of the audit announcement date; however, the Beneficiary requested and received an invoicing extension for this FRN through February 26, 2018, and the Service Provider invoiced the SLP on February 21, 2018 for the full $25,238. The Service Provider's invoice to SLP did not allocate the costs for the ineligible Monsey Girls students and location.

According to the FCC Form 471, the Beneficiary reported a total student enrollment count of 445 students including 290 students enrolled at Monsey Girls and 155 students enrolled for Monsey Boys. Based on these enrollment counts, 65 percent of the total population receiving the point-to-point services would be ineligible for SLP support, or $16,152 of the discounted funding request.

Cause
The Beneficiary and Monsey Girls share systems to allow connectivity between the two schools; however, they did not request these services as a combined entity. As such, the Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services and submission of invoices for services approved by the SLP.

Effect
The monetary effect of this finding is $16,152, the amount allocated for the ineligible students at the ineligible location. While the Beneficiary had not been reimbursed as of the announcement date, there is an outstanding invoice in the amount of $25,238 under review in SLP at the end of the invoicing period. The $16,152 is considered ineligible for reimbursement in this amount, and is recommended as a commitment adjustment.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699119215 (Voice)	$16,152	$0	$16,152

Recommendation
We recommend that:

1. USAC deny $16,152 of the $25,238 invoice currently under review and reduce the commitment accordingly.

2. The Beneficiary develop proper cost allocation methods for allocating ineligible student use.

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

Beneficiary Response

Since this ONE circuit which is a Point to Point it is not logical to have TWO requests for this enity and its associated sister entity. BOTH entities could not have made individual requests. The girls school is an eligible entity and could be the beneficiary of an equipment transfer according to Program rules at the appropriate time. Both sites are eligible entities and the both sites contain eligible students. This would the same as a video conferencing circuit that links two separate schools. I see no listing in the eligible servies that a Pt to Pt circuit is limited within the same form 471.

The cited criteria to support the finding actually refutes the contention. The girl's school is in fact recognized by The New York State department of Education as an entity that provides elementary education as cited by the finding criteria 47 CFR 54.01 and USAC concurs.Thus the site and its students are eligible for e-rate services.

Auditor Response

The Beneficiary's response did not address why the Beneficiary did not allocate costs to account for the ineligible Monsey Girls recipients. For the internet access point-to-point services requested under FRN 1699119215 to have been fully eligible for both beneficiaries, the Beneficiary should have requested services as a combined entity with two locations. The Beneficiary does report as a combined entity for the New York State Education Child Nutrition Management System; however, Monsey Girls has a separate BEN and applied for separate SLP funding in FY 2016, and it is therefore not eligible to receive services under the Beneficiary's BEN 16056274 and its FRNs. The Beneficiary may not connect a point-to-point service to an ineligible location unless it allocates costs to account for the ineligible recipients. As a result, our position regarding the finding does not change.

Finding No. 2, Second Report & Order, CC Docket No. 02-6, 18 FCC Rcd 9202, 9209-10, paras 22-24 – Beneficiary Over-Invoiced SLP for Duplicate Services

Condition

The Beneficiary requested duplicative funding for internet services. Specifically, the Beneficiary requested internet access services under FRN 1699047324 on its FCC Form 471, Application No. 161051967. The form's description of needs or services requested includes "data transmission and/or internet access, month-to-month broadband for a non-instructional facility, 1 Location" and "copper cable modem, internet access service that includes a connection from any applicant site directly to the Internet Service Provider, 5 Up Megabits per second/35 Down Megabits per second, 1 Building." Upon receiving the SLP's approval, the Beneficiary contracted with Cablevision Systems Corporation (Optimum) (First Service Provider) for internet access services for a non-instructional facility at a pre-discount cost of $160 per month. The Beneficiary requested funding for a maximum pre-discount amount of $160 per month, or $1,920 annually ($1,536 when discounted at the Beneficiary's 80 percent discount rate). However, we inquired with the First Service Provider and determined that the First Service

Provider did not provide internet services for the non-instructional facility; instead, it provided services for the Beneficiary's school building located at 15 Widman, Spring Valley, New York. The Beneficiary invoiced the SLP for the full commitment amount of $1,536 prior to our announcement date. We noted that the First Service Provider has served as the Beneficiary's internet service provider since 2011.

The Beneficiary also requested funding for internet services for the same school building under FRN 1699055144. The FCC Form 471's description of needs or services requested includes "data transmission and/or internet access, 1 Building/Lit Fiber Multi Channel" and "OC-12, internet access service that includes a connection from any applicant site directly to the Internet Service Provider 622.080 Up/622.080 Down Megabits per second." Upon receiving the SLP's approval, the Beneficiary contracted with Gladesmore Telecom (Second Service Provider) to provide the requested services. On July 1, 2016, the first day of the period of performance, the Second Service Provider invoiced the Beneficiary $3,533 for the Beneficiary's non-discounted share of internet services covering the four-month period from July to October 2016. On February 21, 2018, the Second Service Provider invoiced the SLP for the internet services at a rounded pre-discount amount of $4,417 per month, or $17,666 annually ($14,133 when discounted at the Beneficiary's 80 percent discount rate). The Second Service Provider invoiced the SLP after our audit announcement date, and the SLP has not yet disbursed any funding. The Beneficiary filed a commitment reduction with the SLP on March 8, 2018, from the original $42,398.40 to $14,133.

Cause
The Beneficiary erroneously contracted with the Second Service Provider for duplicative internet services for its school building. As such, the Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for duplicative services.

Effect
The First Service Provider is the Beneficiary's internet service provider for the school building. As such, the monetary effect and commitment adjustment for the finding is $14,133 for the full amount of the funding requested under FRN 1699055144 for the Second Service Provider's services. We do not recommend recovery for this finding, as the SLP did not disburse any funds under FRN 1699055144 as of the audit announcement date.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699055144 (Internet)	$14,133	$0	$14,133

Recommendation
We recommend that:

1. USAC decline to pay the invoice request for $14,133.

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

Beneficiary Response

The criteria used to support the finding refutes the conclusion. FRN 1699047324 is for cable broadband service to the NIF [non-instructional facility] while FRN 1699055144 provides Fiber Lit Broadband to the school. It would not be cost effective to requests a fiber lit service to the NIF which is where the Dean of the School oversees the educational operation of the school.

Auditors Reponse

The Beneficiary's response did not address why the Beneficiary procured duplicative internet services. As noted above, the First Service Provider stated that it did not provide services to a NIF under FRN 1699047324; instead, it provided services to the main school building, where the Second Service Provider was also providing internet services under FRN 1699055144. Because the services were duplicative, our position regarding the finding does not change.

Finding No. 3, 47 C.F.R. § 54.516(a) Lack of Documentation – Service Provider Did Not Demonstrate Eligible Services Were Provided

Condition

The Beneficiary requested managed internal broadband services (MIBS) under FRN 1699121157 on its Form 470 and Form 471; however, it was unable to support that the services received corresponded to those requested and approved. The approved FCC Form 470 described the services as "managed internal broadband services – existing equipment," while the approved FCC Form 471 described the services as "managed service contract on already installed equipment." The Beneficiary entered into a contract with Gladesmore Telecom (Service Provider) to obtain the requested services at a monthly pre-discount cost of $550, for a total pre-discount cost of $6,600.

We examined the Service Provider's contract to determine whether the contracted services were eligible for SLP support and noted the following issues:

- The contract does not define the services to be performed by the Service Provider. According to the 2015 Eligible Services List, in a MIBS contract, the Service Provider is responsible for overseeing the operation, management, and monitoring of eligible broadband internal connections components (e.g., managed Wi-Fi); expenses are only eligible for SLP support if they directly support and are necessary for broadband connectivity within schools and libraries. Applicants may lease equipment as a part of an internal connections or MIBS request; however, because the Beneficiary's approved Form 471 refers to equipment already installed, leased equipment would not have been included in the approved request and would not be considered eligible.

- The Beneficiary purchased the original equipment for which it had procured the MIBS support in 2013. We reviewed the Beneficiary's contract with MicroTechnology of Brooklyn, Inc., dated September 29, 2013, that supported the purchase.

We conducted a site visit to evaluate the existence of the equipment receiving services under the contract. During the site visit, we visually inspected an Enterasys switch, Cat 6 wiring, patch cables and panels, a 48 port patch panel, a 4 port USB rack mount, short network cable, long network cable, a short-wave LAN transceiver and Cat 6 wiring, jacks and wall plates, a SonicWALL pro router, a switch, and a rack with a door and side panels. We were unable to visually inspect the 2500-3000 backup battery because of its location. After we arrived on site, the Beneficiary informed us that the 20 access points were located in the ceiling and that we would be unable to gain access to them because it would disrupt classes. We were unable to obtain a system report to confirm that these access points were existing and functioning.

We inquired with the Beneficiary and determined that the Service Provider does not monitor the Beneficiary's systems. If the Beneficiary encounters issues with the equipment, it notifies its consultant via email; the consultant then notifies the Service Provider of the issue. We requested documentation to support the services that the Service Provider performed during the period; however, the Beneficiary was unable to provide this documentation. Based on our discussion with the Beneficiary, if the Service Provider did provide the stated services, these services would have been consistent with a Basic Maintenance of Internal Connections (BMIC) contract, rather than with the MIBS requested under the approved Form 470, as the Service Provider is not proactively managing and monitoring the Beneficiary's system as is required under a MIBS contract. Any services that the Beneficiary received were therefore not as requested and approved on its FCC Form 471, and the Beneficiary should have requested BMIC services instead.

Cause

The Beneficiary did not have adequate processes in place to maintain the required documentation and did not have sufficient knowledge of the Rules governing the FCC Form 471 request and approval process.

Effect

The monetary effect of this finding is $5,280 ($6,600 discounted at the Beneficiary's 80 percent discount rate), or the total amount committed for FRN 1699121157. The Beneficiary had not invoiced the SLP for this FRN as of the announcement date, and SLP therefore has not made any disbursements either within the audit period or to date. The Beneficiary has requested and received an extension until September 30, 2018, and an invoice extension until January 31, 2019.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699121157 (MIBS)	$5,280	$0	$5,280

Recommendation
We recommend that:

1. USAC reduce the commitment accordingly.

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

Beneficiary Response

The finding criteria cited refutes the auditors contention. The facts supports the contention that there is a material record that the service was provided. The auditors conducted an onsite survey an accounted for much of the existing equipment and viewed the terminus of all network jacks including all Wireless Access cables which with proper technical accumum would validate the existance and the functioning of said equipment. The auditors were told upon request that the service provider monitors the equipment and if there is a particular issue that arises a telephone call or text is generated to the service provider. In addition the Service provider billed the school and the school paid its invoice. No different than a voice service, the school demonstrated that it had the ability to utilize the service and any opting to negate this assertation is not supported by the facts.

Auditor Response
The Beneficiary was unable to provide any documentation to support the services performed or expected to be performed under the MIBS contract. In particular, the contract did not include a written description of services to be provided; it only listed equipment. Further, the Service Provider did not respond to our requests for information during the audit. Our position regarding the finding does not change.

<u>Finding No. 4, 47 C.F.R. §54.502(b) – Beneficiary Inaccurately Calculated Category 2 Budget</u>

Condition
The Beneficiary included ineligible students in its student enrollment count on its FY 2016 Form 471 No. 161052681 for Category 2 (C2) services under FRN 1699121157. Specifically, when completing its Form 471, the Beneficiary calculated its student enrollment at 445 students. However, this total included students from Cheder Chabad of Monsey Girls (Monsey Girls), the Beneficiary's sister school located at a different address. Monsey Girls has its own BEN, 16063023, and it separately applied for and received SLP funding in FY 2016. As such, Monsey Girls students should not have been included in the Beneficiary's student enrollment count. Monsey Girls had total student enrollment of 284 students on its School Lunch Reimbursement Claim Form; the Beneficiary's student enrollment count for its C2 budget calculation therefore should have been 162 students, rather than the 445 claimed for Budget calculation purposes.

Although the erroneous student enrollment did not impact the Beneficiary's eligibility discount percentage, it did cause the Beneficiary to incorrectly calculate its budget for C2 funding. The

Beneficiary had originally calculated its C2 budget as $67,418; however, we recalculated the C2 budget based on the corrected student enrollment data and determined that the Beneficiary's C2 budget should have been $24,543. Because FY 2016 is the second year of the Beneficiary's five-year C2 funding period, we considered both FY 2015 and FY 2016 when determining the impact of this error. The Beneficiary requested and received the full FY 2015 commitment amount of $16,920 ($21,150 discounted at the Beneficiary's 80 percent discount rate). The Beneficiary therefore has a remaining budget for FY 2016 of $3,393 (the revised budget of $24,543 less the $21,150 approved pre-discount amount for FY 2015). Because the Beneficiary's Form 471 included an approved pre-discount amount of $6,600 for FY 2016, the Beneficiary exceeded its allowable C2 budget by $3,207 ($6,600 less the recalculated remaining budget of $3,393). The SLP has not disbursed any funds for FRN 1699121157 as of the audit announcement date. The Beneficiary has requested and received an extension to receive services until September 30, 2018, and an invoice extension until January 31, 2019.

The table below provides additional details.

Revised Actual Student Enrollment	C2 Budget Available Based on Correct Student Enrollment (162*151.50= $24,543)	Amount of C2 Budget Committed and Spent in FY 2015	C2 Budget Available for FY 2016	Amount Originally Committed for FY 2016 (Based on Incorrect Student Count)	Excess C2 Budget Spending
162	$24,543	$21,150	$3,393	$6,600	$3,207

Cause
The Beneficiary did not have adequate processes in place to ensure that it used accurate enrollment counts when completing its Form 471 submission for its C2 budget.

Effect
The monetary effect and commitment adjustment for this finding is $2,566 ($3,207 discounted at the Beneficiary's 80 percent discount rate). The Beneficiary had not invoiced the SLP for this FRN as of the audit announcement date, and we therefore do not recommend recovery. Based on the Beneficiary's approved invoicing extension, the Beneficiary has until January 31, 2019, to invoice the SLP.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699121157 (MIBS)	$2,566	$0	$2,566

Recommendation
We recommend that:

1. USAC reduce the commitment accordingly.

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

Beneficiary Response

The data supports 162 Students -see Sept 2016 Lunch Claim Form and the RCA should reflect this.

Auditor Response

The Beneficiary's C2 budget calculation used a total student count of 445, which represents the combined student populations of Cheder Chabad of Monsey Boys and Monsey Girls. The 445 combined student count is largely supported by the total student count reported on the Beneficiary's lunch claim forms, which included student counts of 162 for Monsey Boys and 284 for Monsey Girls. However, the Beneficiary did not request services as a combined entity, and it therefore should have calculated its C2 budget using only the eligible Cheder Chabad of Monsey Boys student count. Our position regarding the finding does not change.

Finding No. 5, Fifth Report and Order – Untimely Payment of the Beneficiary's Non-Discounted Share to the Service Provider

Condition

The Beneficiary was not timely in paying its non-discounted share for services received under its (Voice) FRN 1699009206 and (Internet) FRNs 1699055144, 1699119215 and 169911240. According to the Rules, payment must be made within 90 days of receiving service in order to be considered timely. We reviewed the service provider bills, dated July 1, 2016, and the Beneficiary's check payments and noted that the Beneficiary did not make any payments for its non-discounted share of the invoiced services until January 29, 2018, for FRN 1699119206; January 1, 2018, for FRN 1699119215; January 15, 2018, for FRN 1699119240; and February 5, 2018, for FRN 1699055144. Therefore, it did not make any payments during the service period for the FY 2016 funding year, July 1, 2016 through June 30, 2017 for these Category 1 services.

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing timely payment of its non-discounted share of invoiced services.

Effect

There is no monetary effect for this finding, as the Beneficiary paid its non-discounted share of costs prior to invoicing SLP and before the completion of the audit. However, by not making payments in a timely manner, the Beneficiary is at an increased risk of failing to pay its non-discounted share.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699009206 (Voice)	$0	$0	$0
1699119144 (Internet)	$0	$0	$0
1699119215 (Internet)	$0	$0	$0
1699119240 (Internet)	$0	$0	$0
Total	**$0**	**$0**	**$0**

Recommendation
We recommend that the Beneficiary implement controls and procedures to ensure that it pays its non-discounted share of invoiced services in a timely manner (e.g., within 90 days after delivery of service).

Beneficiary's Response

The school paid its bills when they were rendered.

Auditor's Response
The Beneficiary did not pay its non-discounted share of services invoiced under its voice and internet FRNs within 90 days of receiving these services, as required by the Fifth Report and Order. Our position regarding the finding does not change.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.501(a) (2015).	*(1) Only schools meeting the statutory definition of "elementary school" or "secondary school" as defined in §54.500 of this subpart, and not excluded under paragraphs (a) (2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.*
2	*Second Report and Order*[5]	*22. Funding of Duplicative Services. In the Universal Service Order, the Commission indicated that an applicant's request for discounts should be based on the reasonable needs and resources of the applicant, and bids for services should be evaluated based on cost effectiveness. Pursuant to this requirement, the Administrator has denied discounts for duplicative services. Duplicative services are services that deliver the same functionality to the same population in the same location during the same period of time. We emphasize that requests for discounts for duplicative services will be*

[5] *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, 18 FCC Rcd. 9202, 9209-10, paras. 22-24 (2003) (Second Report and Order).

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

Finding	Criteria	Description
		services are functionally equivalent may depend on the particular circumstances presented. In addition, we amend section 54.511(a) of our rules to make clear that applicants must consider whether the service is cost effective. (Footnotes omitted)
3	47 C.F.R. § 54.516(a) (2015).	*Recordkeeping requirements* *1) …[S]chools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.* ***(2) Service providers.*** *Service providers shall retain documents related to the delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well.*
4	47 C.F.R. §54.502(b) (2015).	***(1) Five-year budget****. Each eligible school or library shall be eligible for a budgeted amount of support for category two services over a five-year funding cycle beginning the first funding year support is received.* ***(2) School budget****. Each eligible school shall be eligible for support for category two services up to a pre-discount price of $150 per student over a five-year funding cycle. Applicants shall provide the student count per school, calculated at the time that the discount is calculated each funding year. New schools may estimate the number of students, but shall repay any support provided in excess of the maximum budget based on student enrollment the following funding year.*

Finding	Criteria	Description
5	*Fifth Report and Order*[6]	*<u>Failure to Pay Non-discounted Share</u>. We conclude that all funds disbursed should be recovered for any funding requests in which the beneficiary failed to pay its non-discounted share. While our rules do not set forth a specific timeframe for determining when a beneficiary has failed to pay its non-discounted share, we conclude that a reasonable timeframe is 90 days after delivery of service. Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services… Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the] rule that the beneficiary must pay its share.*

COTTON & COMPANY LLP

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Partner
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[6] *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, 19 FCC Rcd. 15808, 15816, para. 24 (2003) (Fifth Report and Order).

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

CONGREGATION OHR MENACHEM

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

USAC AUDIT NO. SL2017BE053

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Executive Summary

October 22, 2018

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

Dear Mr. Scott:

Cotton & Company LLP (referred to as "we") audited the compliance of Congregation Ohr Menachem (Beneficiary), Billed Entity Number (BEN) 16044231, using regulations and orders governing the Federal Universal Service Schools and Libraries Program (SLP), set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

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

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

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

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

Audit Results and Commitment Adjustment/Recovery Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding No. 1, 47 C.F.R. § 54.516(a)(2) Lack of Documentation – Service Provider Did Not Demonstrate Eligible Services Were Provided. The Beneficiary requested managed internal broadband services (MIBS) on its Form 470 and Form 471; however, it was unable to support that the services received corresponded to those requested and approved.	$6,800	$0	$0	$6,800
Finding No. 2, FCC Form 474 Instructions, at 3 – Service Provider Over-Invoiced SLP	$2,772	$0	$2,772	$5,176

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

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

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

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
for Services Delivered to Ineligible Locations. The Beneficiary's service providers invoiced the SLP for ineligible locations under three FRNs.				
Finding No. 3, FCC Form 474 Instructions, at 3, Service Provider Over-Invoiced SLP for Services Not Requested. The Service Provider invoiced the SLP for 11 additional voice lines that were not included on the Beneficiary's approved FCC Form 471.	$1,029	$0	$754	$3,328
Finding No. 4, 47 C.F.R. § 54.523 – Untimely Payment of Beneficiary's Non-Discounted Share to Service Provider. The Beneficiary was not timely in paying its non-discounted share for services received under numerous voice and internet FRNs.	$0	$0	$0	$0
Total Net Monetary Effect	**$10,601**	**$0**	**$3,526**	**$15,304**

USAC Management Response

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

In addition, USAC directs the Beneficiary and Service Provider to USAC's website under "Reference Area" for guidance on Eligible Services available at (https://www.usac.org/sl/applicants/beforeyoubegin/default.aspx), Document Retention available at (https://www.usac.org/sl/tools/document-retention.aspx), Invoicing – Service Providers available at (https://www.usac.org/sl/service-providers/step05/default.aspx), and Obligation to Pay available at (https://www.usac.org/sl/applicants/step06/obligation-to-pay.aspx).

Further, USAC recommends the Beneficiary and Service Provider subscribe to USAC's weekly News Brief which provides program participants with valuable information. Enrollment can be made through USAC's website under "Trainings and Outreach" available at (http://www.usac.org/sl/tools/news-briefs/Default.aspx).

FRN	Recovery Amount	Commitment Adjustment Amount
1699112476	$0	$6,800
1699037226	$1,562	$2,574
1699112310	$1,100	$1,540
1699112324	$864	$864
Total	**$3,526**	**$11,778**

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2016. The Beneficiary is a private school located in Brooklyn, New York that serves more than 250 students.

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

Service Type	Amount Committed	Amount Disbursed
Managed Internal Broadband Services	$6,800	$0
Internet Access	$96,012	$864
Voice	$37,916	$16,241
Total	**$140,728**	**$17,105**

The "amount committed" total represents five FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2016 that resulted in eight Funding Request Numbers (FRNs). We tested all of the FRNs using the audit procedures enumerated below.

A. Application Process

We obtained an understanding of the Beneficiary's processes relating to the SLP. Specifically, to determine if the Beneficiary used the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We performed inquiries and direct observation/inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

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

B. Competitive Bid Process

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

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 472, *Billed Entity Applicant Reimbursements* (BEARs); FCC Form 474, *Service Provider Invoices (SPIs)*; and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Site Visit

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

E. Reimbursement Process

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

Detailed Audit Findings

<u>Finding No. 1, 47 C.F.R. § 54.516(a)(2) Lack of Documentation – Service Provider Did Not Demonstrate Eligible Services Were Provided</u>

Condition

The Beneficiary requested managed internal broadband services (MIBS) under FRN 1699112476 on its Form 470 and Form 471; however, it was unable to support that the services received corresponded to those requested and approved. The approved FCC Form 470 described the services as "managed internal broadband services – existing equipment," while the approved FCC Form 471 described the services as "managed service contract on already installed equipment." The approved Form 471 specified that the Beneficiary would obtain the requested services from Y&S Technologies (First Service Provider); however, the First Service Provider issued a termination notice to the Beneficiary on June 15, 2016. The Beneficiary then entered into a contract with Gladesmore Telecom (Second Service Provider) at a monthly pre-discount cost of $667 rounded, for a total pre-discount cost of $8,000.

We examined the Second Service Provider's contract to determine whether the contracted services were eligible for SLP support and noted the following issues:

- The contract between the Beneficiary and the Second Service Provider is not a MIBS contract. The contract lists a number of pieces of equipment that the Beneficiary purchased. The contract does contain a line labeled "MBIS"; however, the document does not define this acronym or detail the services to be provided. The SLP program does not include any eligible services known as "MBIS" services. In a MIBS contract, the Service Provider is responsible for overseeing the operation, management, and monitoring of eligible broadband internal connections components (e.g., managed Wi-Fi); expenses are only eligible for SLP support if they directly support and are necessary for broadband connectivity within schools and libraries. Applicants may lease equipment as a part of an internal connections or MIBS request; however, because the Beneficiary's approved Form 471 refers to equipment already installed, leased equipment would not have been included in the approved request and would not be considered eligible.

- The Beneficiary informed us that it had purchased the original equipment for which it had procured the MIBS support in 2012. The Beneficiary provided its contract with the First Service Provider, dated September 1, 2013, to support the purchase.

We conducted a site visit to evaluate the existence of the equipment receiving services under the second contract. During the site visit, we visually inspected an Enterasys LAN controller, Cat 6 wiring, patch panels, a three-slot modular shelf, short network cable, long network cable, a short-wave LAN transceiver, jacks and wall plates, a computer rack with door and side panels, and a number of access points. We found that 14 of the 29 access points included in the contract were not on-site for inspection.

In a MIBS contract, the Service Provider must proactively manage and monitor the Beneficiary's systems. We inquired with the Beneficiary and determined that the Second Service Provider does not monitor the Beneficiary's systems. If the Beneficiary encounters issues with the equipment, it notifies its consultant via email; the consultant then notifies the Second Service Provider to fix the issue. We requested documentation to support the services that the Second Service Provider provided during the funding year; however, the Beneficiary was unable to provide this documentation. Based on our discussion with the Beneficiary, the services are not consistent with a MIBS contract as solicited on its FCC Form 470, requested and approved on its FCC Form 471 by SLP.

Because the contract did not clearly outline the contracted services and the Beneficiary's description of the services provided does not align with the requirements of a standard MIBS contract, we were unable to confirm that the services provided corresponded to those requested and approved on the Beneficiary's FCC Form 471. As such, the $6,800 committed under FRN1699112476 is not considered eligible for reimbursement under the Rules.

Cause
The Beneficiary did not have adequate processes in place to maintain the required documentation and did not have sufficient knowledge of the Rules governing the FCC Form 471 request and approval process.

Effect
The monetary effect of this finding is $6,800 ($8,000 discounted at the Beneficiary's 85 percent discount rate), or the total amount committed for FRN 1699112476. The Beneficiary had not invoiced SLP for this FRN as of the announcement date, and SLP therefore has not made any disbursements either within the audit period or to date. The Beneficiary has requested and received an extension until September 30, 2018, and an invoice extension until January 31, 2019.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699112476 (MIBS)	$6,800	$0	$6,800

Recommendation
We recommend that:

1. USAC reduce the commitment accordingly.

2. The Beneficiary only request support for eligible services as required by the Rules.

Beneficiary Response

The school certifies that it received MIBS services during the period under audit. Each month the vendor monitored and insured the wireless network equipment and related hard-wired equipment was working properly and performing within standards, including *the necessary upgrades and reconfiguration of any software, firmware and other wireless configurations. Service was done remotely or may have required an on-site visit. In addition, in the event there was a service disruption the administrator would call, text or e-mail the vendor.*

Since there was significant plans to upgrade the site and convert the third floor to a dormitory there was a need to protect the integrity of the Broadband Network.

The assertion that there was a break and fix arrangement is incorrect. As the retrofitting of the building for dormitories progressed other issues developed. Unfortunately, the school was the victim of a Ransomware attack that compromised the historical e-mail record of the many requests for service above and beyond the routine monitoring of the network.

Furthermore, during FY 2016 there were 29 operational WAPS and upon request we can produce the WAP control map that currently lists all access points even those that were deactivated after the construction project. In fact, on site reviewers did see the cabling and wiring that did in fact support all the equipment listed on the MIBS contract. The deactivated units were placed in the deep storage closet and it was determined at the on site review the time necessary to sift through the rummage and locate each device was not justified given the time constraints.

The lack of a robust amount of documentation is consistent with the type of service provided and it lack does not support the assertion that service was not delivered.

Service Provider Response

We submit that our company provided MIBS services during the period under audit. There may have me a nomenclature error however the contract was quite clear indicating that there was covered hardware all of which supported the deployment of Broadband in the Queens site. Since there was significant plans to upgrade the site and convert the third floor to a dormitory there was a need to protect the integrity of the Broadband Network.

The assertion that there was a break and fix arrangement is incorrect. Our company routinely monitored the routers, switches and other components via remote access. As the retrofitting of the building for dormitories progressed other issues developed. Unfortunately, the school was the victim of a Ransomware attack that compromised the historical e-mail record of the many requests for service above and beyond the routine monitoring of the network. Most requests for this type of service was innated (sic) by texting requests which are routinely deleted to conserve space in my phone.

Furthermore, during FY 2016 there were 29 operational WAPS and upon request we can produce the WAP control map that currently lists all access points even those that were deactivated after the construction project. In fact, on site reviewers did see the cabling and wiring that did in fact support all the equipment listed on the MIBS contract. The *deactivated units were placed in the deep storage closet and it was determined at the on site review the time necessary to sift through the rummage and locate each device was not justified given the time constraints.*

The lack of a robust amount of documentation is consistent with the type of service provided and it lack does not support the assertion that service was not delivered.

Auditor Response

During our site visit, the Beneficiary did not indicate that it intended to upgrade its facility or that it had removed the access points as part of this upgrade. In addition, we did not see any evidence that construction was underway during our visit. When we inquired with the Beneficiary regarding the missing access points, the Beneficiary stated that it was unable to locate the access points; the Beneficiary is incorrect in asserting it informed us that it had moved the access points to ensure their safety during construction, and that we determined that an attempt to locate the access points would not be justified.

If the Beneficiary or Service Provider maintains a WAP control map showing all access points functioning, the Beneficiary or Service Provider should have provided this map with its response to the audit finding to enable us to consider the map in our response, as indicated at the exit meeting.

Based on the issues identified above, our position regarding the finding does not change.

Finding No. 2, FCC Form 474 Instructions, at 3 – Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Locations

Condition

The Beneficiary's service providers invoiced the SLP for ineligible locations under the following FRNs:

FRN 1699037226

Verizon Wireless (Service Provider) delivered voice services for an off-campus location in Canadensis, Pennsylvania, and invoiced the SLP for these services. The Beneficiary has two eligible locations: a high school located in Queens, New York, and an elementary school located in Brooklyn, New York. It also maintains a summer camp for high school students in Canadensis, Pennsylvania; this location is considered off-campus and is therefore ineligible.

The Beneficiary requested and received funding for voice services under FRN 1699037226 and entered into a month-to-month contract with the Service Provider to obtain the requested services. The Service Provider's invoices describe the services as "Voice Services." The Service Provider submitted eight SPIs for services in 2017 that totaled $1,562 ($3,124 discounted at the Beneficiary's 50 percent discount rate). Of the $1,562, the SLP disbursed $808 rounded in E-rate funding for voice services delivered to the ineligible off-campus location during Funding Year (FY) 2016 ($67 multiplied by 12 months). Because the services related to an ineligible off-site location, the $808 disbursed is not considered eligible for reimbursement under the Rules.

We inquired with the Beneficiary, which acknowledged that the contract was for phone access for the summer camp. After we brought the issue to the Beneficiary's attention, the Beneficiary closed the 442007047-0002 account in January 2018.

FRN 1699112310
Gladesmore Telecom (Service Provider) delivered voice services for an off-campus residence in Brooklyn, New York, and invoiced the SLP for these services. The Beneficiary requested and received funding for voice services under FRN 1699112310 and entered into a month-to-month contract with the Service Provider to obtain the requested services. The Service Provider's invoices describe the services as "Hosted Extensions." The Beneficiary's approved FCC Form 471 described the location as a non-instructional facility (NIF). We requested the addresses of the locations for which the Beneficiary obtained services under each FRN and noted that the address of the location for the voice services under FRN 1699112310 was a residential address. During our site visit on April 24, 2018, we inquired with the Beneficiary regarding the NIF and determined that the NIF is a home office for the Beneficiary's dean. On May 4, 2017, the Service Provider submitted one SPI totaling $1,100 ($2,200 discounted at the Beneficiary's 50 percent discount rate, or a monthly total of $220 multiplied by 5 months) for eight voice lines each month. Based on this SPI, the SLP disbursed $1,100 in E-rate funding for voice services delivered to this location for the September 2016 through January 2017 timeframe. Because the services related to an ineligible off-site location, the $1,100 disbursed is not considered eligible for reimbursement under the Rules. Although SLP committed $2,640 in funding, the Beneficiary did not file SPIs for the February through June 2017 timeframe and did not request an invoice extension.

FRN 1699112324
Gladesmore Telecom (Service Provider) delivered internet services for the off-campus residence, the home office for the Beneficiary's dean, in Brooklyn, New York and invoiced the SLP for these services. The Beneficiary requested and received funding for internet services under FRN 1699112324 and entered into a month-to-month contract with the Service Provider to obtain the requested services. The Service Provider's invoices describe the services as "Internet Connection." On May 22, 2017, the Service Provider submitted one SPI totaling $864 ($960 discounted at the Beneficiary's 90 percent discount rate, or a monthly total of $144 multiplied by 6 months). Based on this SPI, the SLP disbursed $864 in E-rate funding for internet services delivered to this location for the August 2016 through January 2017 timeframe. Because the services related to an ineligible off-site location, the $864 disbursed is not considered eligible for reimbursement under the Rules. Although SLP committed $1,728 in funding, the Beneficiary did not file SPIs for the February through June 2017 timeframe and did not request an invoice extension.

The 2015 Eligible Services List (ESL) states, "Off-campus use, even if used for an educational purpose, is ineligible for supplier and must be cost allocated out of any funding request."

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing requests for services. The Beneficiary did not accurately communicate with the Service Provider to ensure the proper submission of invoices for services approved by the SLP. The Service Provider was using erroneous data provided by the Beneficiary that indicated that the lines were eligible to invoice SLP.

Effect
The monetary effect for this finding is $2,772, or the amount disbursed as of the announcement date for all three FRNs. We recommend the Beneficiary reduce the commitment for FRN 1699037226 in the same amount as determined ineligible. For FRN 1699112310 and FRN 1699112324 we recommend the full commitment be reduced.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699037226 (Voice)	$808	$808	$808
1699112310 (Voice)	$1,100	$1,100	$2,640
1699112324 (Internet)	$864	$864	$1,728
Total	**$2,772**	**$2,772**	**$5,176**

Recommendation
We recommend that:

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

2. The Beneficiary implement better controls to ensure that services are only requested for eligible locations and that this information is properly provided to the Service Provider to submit accurate SPIs for reimbursement.

Beneficiary Response

We submit that 744 Eastern Parkway, the school's NIF, is a facility that houses various offices including but not limited to Congregation Ohr Menachem Administrative Office, Beis Moshiach Office, etc., none of the Beneficiaries officers, staff or students reside at this location. The onsite auditors had an opportunity to inspect these premises which would have confirmed the above but chose not to. A listing of multiple commercial establishment at this site have been placed in Dropbox.

Auditor Response
The Beneficiary did not respond to our finding regarding the ineligible summer camp location. The Service Provider responded and provided documentation to support that it had appropriate controls in place prior to invoicing SLP as it received confirmation from the Beneficiary that the site and lines were eligible to invoice SLP. We updated the wording of our recommendation

accordingly, however, while we have always expected that the Beneficiary would be held accountable for the improper disbursement, the Servicer Provider requested payment from SLP and is therefore named within the finding.

The Beneficiary provided public records for the 744 Eastern Parkway property indicating that this property is owned by Beis Moshiach, who operates a publishing company for an internet magazine from this address. The Beneficiary did not provide any evidence indicating that it was affiliated with Beis Moshiach, and we were unable to identify a connection through our research. In addition, we noted that the Beneficiary requested eight lines for this location and that eight different businesses are listed at the location, none of which appear to be affiliated with the Beneficiary. Further, if the Beneficiary's administrative office were located at this address, we would have expected the Beneficiary's primary phone line to be connected to this address; however, when we performed an online search, we found that the primary phone line listed for the Beneficiary related to the Brooklyn site, rather than to the 744 Eastern Parkway site. Finally, during our site visit we inspected administrative offices and the primary phone line at the Brooklyn site. When we inquired with the Beneficiary regarding the 744 Eastern Parkway site, the Beneficiary informed us that this location was the dean's home. Because the dean's home is considered a private residence, we determined that it was ineligible and did not perform a site visit. As such, our position regarding this finding does not change.

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

Condition

The Beneficiary's service provider, Verizon Wireless (Service Provider), invoiced the SLP for 11 additional voice lines that were not included on the Beneficiary's approved FCC Form 471. The Beneficiary requested and received approval for 12 cellular voice lines under FRN 1699037226 on its FCC Form 471 Application No. 161020016. The approved Form 471 specified that the Beneficiary would obtain the services from the Service Provider at a monthly pre-discount cost of $689, for a total pre-discount cost of $8,272 rounded ($4,136 when discounted at the Beneficiary's 50 percent discount rate). We reviewed the Service Provider's bills for FY 2016 and determined that the Service Provider invoiced the Beneficiary for 23 lines per month, rather than the 12 lines approved on the Form 471.

The Service Provider's SPIs included charges related to two accounts, 442007047-0001 and 442007047-0002. We reviewed the SPIs and determined that the accounts included charges for 17 and 6 lines, respectively, for a total undiscounted cost of $1,507 and $1,616. Based on the Service Provider's invoices to the Beneficiary, we determined that 12 of the 17 lines in Account #442007047-0001 were approved for funding, and that the remaining 5 lines were ineligible. We determined that all six lines in Account #442007047-0002 were ineligible.

As of the audit announcement date, the SLP had disbursed $1,562 in funding under FRN 1699037226. Of this amount, $534 related to eligible costs for the 12 approved lines and $1,029 rounded related to ineligible costs for the 11 unapproved lines. Specifically, the Service Provider invoiced $443 for the five unapproved lines under Account #442007047-0001 and $1,616 for the six unapproved lines under Account #442007047-0002, for a discounted total of $1,029 ($443 + $1,616 discounted at the Beneficiary's 50 percent rate).

We detail our calculation for the unapproved charges below.

Calculation of Unapproved Charges	
Unapproved Charges for Account #442007047-0001:	
Portion of the SPI related to Account #442007047-0001	$1,507
Total lines on invoice	17
Annual cost per line ($1,507/17)	$88.66
Approved number of lines per FCC Form 471	12
Recalculated undiscounted cost ($88.66 * 12)	$1,064
Charges related to unapproved lines ($1,507 – $1,064)	$443
Unapproved Charges for Account #442007047-0002:	
Total undiscounted cost per the SPI	$3,123
Undiscounted cost related to Account #442007047-0001	$1,507
Undiscounted cost related to Account #442007047-0002/ Charges related to unapproved lines ($3,123 – $1,507)	$1,616
Total Unapproved Charges:	
Account #442007047-0001 (Five unapproved lines)	$443
Account #442007047-0002 (Six unapproved lines)	$1,616
Total Unapproved Charges	$2,059
Discounted Unapproved Charges (50 Percent Discount Rate)	**$1,030**

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

Effect
The monetary effect of this finding is $1,029, or the amount disbursed for unapproved services as of the audit announcement date. The SLP did not make any additional disbursements after the audit announcement date; as such, the recommended recovery is also $1,030. The recommended commitment adjustment for this finding is $3,602, or the full $4,136 in post-discount amounts committed less the $534 in eligible costs disbursed.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699037226 (Voice)	$1,030	$1,030	$3,602

Recommendation
We recommend that:

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

2. The Service Provider implement stronger review controls to ensure that SPIs include only services requested by the Beneficiary and approved by the SLP before the Service Provider submits the SPIs to the SLP for reimbursement.

Beneficiary Response

We submit that at no time were the actual charges exceed the request in fact less than 25% of the requested funds were billed to USAC. The auditors request for a return of funds does not account for the proportional distribution of the eligible services.

Auditor Response
The Beneficiary's response does not address the issue discussed in the finding, which is that the Beneficiary invoiced the SLP for lines that the Beneficiary did not request and that the SLP did not approve. Based on its response, the Beneficiary still may not understand that it is only allowed to invoice for the number of lines that have been approved on the relevant FCC Form 471, and that any changes must be approved by the SLP; the Beneficiary does not have the flexibility to use committed amounts at its discretion. As such, our position regarding this finding does not change.

Finding No. 4, 47 C.F.R. § 54.523 – Untimely Payment of Beneficiary's Non-Discounted Share to Service Provider

Condition
The Beneficiary was not timely in paying its non-discounted share for services received under its voice services FRNs 1699112258, 1699112290, and 1699112310 and under its internet access FRN 1699112324 during the five months in FY 2016, or July through November 2016. According to the Rules, payment must be made within 90 days of receiving service to be considered timely. We reviewed the service provider bills and the Beneficiary's check payments and noted that the Beneficiary did not make any payments for its non-discounted share of the invoiced services until March 10, 2017.

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing timely payment of its non-discounted share of invoiced services.

Effect
There is no monetary effect for this finding, as the Beneficiary paid its non-discounted share of costs within the funding year and before the completion of the audit. However, by not making

payments in a timely manner, the Beneficiary is at an increased risk of failing to pay its non-discounted share.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699112258 (Voice)	$0	$0	$0
1699112290 (Voice)	$0	$0	$0
1699112310 (Voice)	$0	$0	$0
1699112324 (Internet)	$0	$0	$0
Total	**$0**	**$0**	**$0**

Recommendation
We recommend that the Beneficiary implement controls and procedures to ensure that it pays its non-discounted share of invoiced services in a timely manner (e.g., within 90 days after delivery of service).

Beneficiary Response

> *The school pays its portion when the school receives the invoices and did in fact pay its portion as required under program rules.*

Auditor Response
The documentation provided does not furnish sufficient evidence that the Beneficiary paid the non-discounted portion of the invoices as required by the Rules. The Service Provider's invoices include the date on which the Service Provider issued the invoice. Although the Beneficiary stamped each invoice to indicate receipt, it did not record information such as the date on which the Beneficiary received the invoice or the initials of the individual who received the invoice. Without an audit trail to indicate when the Beneficiary received the invoice and who received it, it is not possible for us to verify whether the Beneficiary received the invoices late and therefore paid the invoices within 90 days of receipt. As such, our position regarding the finding does not change.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.516(a)(2) (2015)	*Recordkeeping requirements* *1) Schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall*

Finding	Criteria	Description
		be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase. ***(2) Service providers.*** *Service providers shall retain documents related to the delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well.*
2, 3	Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide at 3, 12	*ALL of the following conditions must occur before a service provider prepares and submits the FCC Form 474 to USAC:* *1. The service provider receives a Funding Commitment Decision Letter (FCDL) from USAC which approves eligible discounts for services; AND* *2. The eligible applicant is already receiving or has received these services; AND* *3. The service provider has billed the applicant for its non-discount share of the services; AND* *4. The service provider has received its FCC Form 486 Notification Letter; AND* *5. The service provider has filed an FCC Form 473, Service Provider Annual Certification Form, for the corresponding funding year.* *A. I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.*
2	*Schools And Libraries Universal Service Support Mechanism*, CC Docket No. 02-6 et. al., Order, 29 FCC Rcd. 13404,	*Off-campus use, even if used for an educational purpose, is ineligible for support and must be cost allocated out of any funding request.*

Finding	Criteria	Description
	13418 at Appendix C (2014) (2015 Eligible Services List)	
4	47 C.F.R. § 54.523 (2015)	*An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.*
4	*Schools And Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd. 15808, 15816 at para. 24 (2004).	*Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services... Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the] rule that the beneficiary must pay its share.*

COTTON & COMPANY LLP

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

ERIE RISE LEADERSHIP ACADEMY CHARTER SCHOOL

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

USAC AUDIT NO. SL2017BE057

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Executive Summary

October 3, 2018

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

Dear Mr. Scott:

Cotton & Company LLP (referred to as "we") audited the compliance of Erie Rise Leadership Academy Charter School (Beneficiary), Billed Entity Number (BEN) 16068721, using regulations and orders governing the Federal Universal Service Schools and Libraries Program (SLP), set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

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

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

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

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

Audit Results and Commitment Adjustment/Recovery Action

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding #1, 47 C.F.R. § 54.503(a) – Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process. The Beneficiary did not conduct a fair and open competitive bidding process, as it did not properly solicit bids when cardinal changes were made to its requirements.	$42,023	$0	$0	$42,023
Finding #2 – 47 C.F.R. § 54.511 – Inadequate Competitive Bidding Evaluation Process. The Beneficiary did not follow an adequate competitive bidding evaluation process that met SLP bidding requirements when awarding contracts.	$3,219	0	$750	$5,291

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

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

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

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

Audit Results	Monetary Effect[1]	Overlapping Recovery[2]	Recovery Action[3]	Commitment Adjustment[4]
Finding #3 – 47 C.F.R. §54.502(b) – Beneficiary Inaccurately Calculated Category 2 Budget. The Beneficiary overestimated its student enrollment and eligibility on its Funding Year 2016 FCC Form 471 No. 161045524. This error did not significantly impact the Beneficiary's discount rate percentage; however, it did impact the Beneficiary's five-year Category 2 budget.	$2,360	$2,360	$0	$0
Finding #4 – 47 C.F.R. § 54.503(c)(4) – Beneficiary Did Not Comply with the 28-Day Waiting Period Before Selecting a Service Provider. The Beneficiary did not conduct a fair and open competitive bidding process, as it signed a contract for FRN 1699042899 before the allowable contract date.	$2,060	$2,060	$0	$0
Finding #5- SL – FCC Form 472, at 3 – Beneficiary Over-Invoiced SLP for Equipment Not Received. The Beneficiary invoiced the SLP for internal connection equipment that it never received.	$492	$492	$0	$0
Finding #6 – 47 C.F.R. § 54.504(d) - Beneficiary Did Not Receive an Approved Service Substitution. The Beneficiary substituted products and services under FRN 1699042896 without filing a service substitution form with the SLP.	$0	$0	$0	$0
Total Net Monetary Effect	**$50,154**	**$4,912**	**$750**	**$47,314**

USAC Management Response

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

In addition, USAC directs the Beneficiary to USAC's website under "Reference Area" for guidance on Competitive Bidding available at (https://www.usac.org/sl/applicants/step01/default.aspx), Calculating Discounts available at (https://www.usac.org/sl/applicants/step03/discounts.aspx), Invoicing – Applicants available at (https://www.usac.org/sl/applicants/step06/default.aspx), and Service Substitutions available at (https://www.usac.org/sl/applicants/before-youre-done/service-substitutions.aspx).

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

FRN	Recovery Amount	Commitment Adjustment Amount
1699101803	$15,873	$0
1699101822	$18,434	$0
1699101876	$7,716	$0
1699042899	$2,060	$2,072
1699042898	$0	$1,159
Total	**$44,083**	**$3,231**

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2016. The Beneficiary is a charter school located in Erie, Pennsylvania that serves more than 300 students.

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

Service Type	Amount Committed	Amount Disbursed
Internal Connections	$42,023	$0
Internet Access	$23,166	$17,820
Voice	$8,211	$750
Total	**$73,400**	**$18,570**

The "amount committed" total represents three FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2016 that resulted in eight FRNs. We tested all of the FRNs using the audit procedures enumerated below.

A. Application Process

We obtained an understanding of the Beneficiary's processes relating to the SLP. Specifically, to determine if the Beneficiary used the funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We performed inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

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

B. Competitive Bid Process

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

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 472, *Billed Entity Applicant Reimbursements (BEARs)*; FCC Form 474, *Service Provider Invoices (SPIs)*; and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Site Visit

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

E. Reimbursement Process

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

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 54.503(a) – Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process

Condition

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

FRN 1699101803

The Beneficiary did not post a new FCC Form 470 Application No. 10020335 when it changed its Category 2 service type from Managed Internal Broadband Services (MIBS) to internal connections. The Form 470 stated that the Beneficiary required MIBS related to existing equipment for "one building, 32 rooms, 24 WAPS, Controller, Router, Switches UPS and all Broadband Deployment components." The FCC Form 470 did not include any requests for internal connections. A change in service type is considered a cardinal change; as such, the Beneficiary should have notified the SLP and potential bidders by posting a new FCC Form 470 to solicit new bids for its newly revised requirements upon determining that it required internal connections rather than the MIBS specified in its Form 470 submission. Revising the Form 470 was particularly important because the Beneficiary's primary mechanism for competition was the Form 470 posting, as no separate request for proposal was posted. By not posting a revised Form 470 detailing the need for internal connections, the Beneficiary did not provide for an open and competitive bidding process and may have prevented eligible service providers from bidding.

The SLP approved the Beneficiary's related Form 471 for "Wireless Access Points (WAPS), Operating System Software of Eligible Equipment, and Installation, Activation, & Initial Configuration" at a one-time pre-discount eligible cost of $18,674 ($15,873 when discounted at the Beneficiary's 85 percent discount rate). The Beneficiary entered into a contract with Connectivity Communications, Inc. to obtain the required services. We reviewed the contracts and the invoices and noted that the description of services stated, "26 AP230 FCC indoor plemun rated, 1 VHM license for HiveManager Appliances 1 per VHM, 26 install AP – hang/mount from surface of wall/hard ceiling, 26 setup and config hive manager per AP." The SLP disbursed a total of $15,873 during the funding year.

FRN 1699101822
The Beneficiary did not post a new FCC Form 470 Application No. 10020335 when it changed its Category 2 service type from MIBS to internal connections. The Form 470 stated that the Beneficiary required MIBS for existing equipment for "one building, 32 rooms, 24 WAPS, Controller, Router, Switches UPS and all Broadband Deployment components." The FCC Form 470 did not include any requests for internal connections. A change in service type is considered a cardinal change; as such, the Beneficiary should have notified the SLP and potential bidders by posting a new FCC Form 470 to solicit new bids for its newly revised requirements upon determining that it required internal connections rather than the MIBS specified in its Form 470 submission. Revising the Form 470 was particularly important because the Beneficiary's primary mechanism for competition was the Form 470 posting, as no separate request for proposal was posted. By not posting a revised Form 470 detailing the need for internal connections, the Beneficiary did not provide for an open and competitive bidding process and may have prevented eligible service providers from bidding.

The SLP approved the Beneficiary's related Form 471 for "Internal Connections - Switches, Antenna, UPS/Battery Backup and Installation, Activation, & Initial Configuration" at a one-time pre-discount eligible cost of $21,687 ($18,434 when discounted at the Beneficiary's 85 percent discount rate). The Beneficiary entered into a contract with Connectivity Communications, Inc. to obtain the required services. We reviewed the contracts and the invoices and noted that the description of services stated, "EX4300, 48p 10/100/1000Base T (48p PoE+) w/4 SFP+ 1/10G uplinks COR 5yr, 4 SFP 1000Base-T Copper Transceiver Module, 4 QSFP+ to QSFP+ 40 Gigabit Ethernet Direct Attach 50CM, Switch mounting, & Network configuration and setup, 3 CyberPower 2U PFC Sinewave Tower/Rack UPS System." The SLP disbursed a total of $18,434 during the funding year.

FRN 1699101876
The Beneficiary did not post a new FCC Form 470 Application No. 10020335 when it changed its Category 2 service type from MIBS to internal connections. The Form 470 stated that the Beneficiary required MIBS for existing equipment for "one building, 32 rooms, 24 WAPS, Controller, Router, Switches UPS and all Broadband Deployment components." The FCC Form 470 did not include any requests for internal connections. A change in service type is considered a cardinal change; as such, the Beneficiary should have notified the SLP and potential bidders by posting a new FCC Form 470 to solicit new bids for its newly revised requirements upon determining that it required internal connections rather than the MIBS specified in its Form 470

submission. Revising the Form 470 was particularly important because the Beneficiary's primary mechanism for competition was the Form 470 posting, as no separate request for proposal was posted. By not posting a revised Form 470 detailing the need for internal connections, the Beneficiary did not provide for an open and competitive bidding process and may have prevented eligible service providers from bidding.

The SLP approved the Beneficiary's related Form 471 for "Internal Connections – Firewall Services and Components, Connectors, Operating System Software of Eligible Equipment, and Installation, Activation, & Initial Configuration" at a one-time pre-discount eligible cost of $9,078 ($7,716 when discounted at the Beneficiary's 85 percent discount rate). The Beneficiary entered into a contract with Connectivity Communications, Inc. to obtain the required services. We reviewed the contracts and the invoices and noted that the description of services stated, "SRX345 Services Gateway, Rack Mount Kit, SRX345 Juniper Secure Edge, 3 year subscription for Intrusion Prevention on SRX345, Firewall install and configuration, 3 year security subscription for IPS." We noted that the security subscription for IPS is not an eligible E-Rate service. The SLP disbursed a total of $7,716 during the funding year.

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

FRN	Product as Described on FCC Form 470	Product as Described on FCC Form 471	Description per Contract
1699101803	Managed Internal Broadband Services; Existing Equipment; Narrative: One Building, 32 rooms, 24 WAPS, Controller, Router, Switches UPS and all Broadband Deployment components	• Access Point • Operating System Software of Eligible Equipment • Installation, Activation, & Initial Configuration • Installation, Activation, & Initial Configuration	• 26 AP230 FCC indoor plemun rated • 1 VHM license for HiveManager Appliances 1 per VHM • 26 install AP - hang/mount from surface of wall/hard ceiling • 26 setup and config hive manager, per AP
1699101822	Managed Internal Broadband Services; Existing Equipment; Narrative: One Building, 32 rooms, 24 WAPS, Controller, Router, Switches UPS and all Broadband Deployment components	• Switch • Antenna • Switch • Installation, Activation, & Initial Configuration • UPS/Battery Backup	• 5 EX4300, 48p 10/100/1000Base T (48p PoE+) w/4 SFP+ 1/10G uplinks COR 5yr • 4 SFP 1000Base-T Copper Transceiver Module • 4 QSFP+ to QSFP+ 40 Gigabit Ethernet Direct Attach 50CM

FRN	Product as Described on FCC Form 470	Product as Described on FCC Form 471	Description per Contract
		• UPS/ Battery Backup	• Switch mounting, & Network configuration and setup • 3 CyberPower 2U PFC Sinewave Tower/Rack UPS System
1699101876	Managed Internal Broadband Services; Existing Equipment; Narrative: One Building, 32 rooms, 24 WAPS, Controller, Router, Switches UPS and all Broadband Deployment components	• Firewall Services & Components • Connectors • Firewall Services & Components • Operating System Software of Eligible Equipment • Installation, Activation, & Initial Configuration	• SRX345 Services Gateway • Rack Mount Kit • SRX345 Juniper Secure Edge • 3 year subscription for Intrusion Prevention on SRX345 • Firewall install and configuration • 3 year security subscription for IPS (Not E-Rate Eligible)

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the competitive bidding process and the circumstances under which beneficiaries must submit revised FCC Form 470s and re-start the 28-day waiting period. The Beneficiary also did not have sufficient processes in place to ensure that it resubmitted the revised FCC Form 470 after making cardinal changes to its requirements, thereby enabling service providers to accurately bid on services.

Effect

The monetary effect and recommended commitment adjustment for this finding is $42,023, or the full post-discount amount committed for each FRN. The Beneficiary had not invoiced SLP for these FRNs until after the announcement date, and therefore, there were no disbursements within the audit period. However, the full amount was disbursed during the funding year.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699101803 (Internal Connections)	$15,873	$0	$15,873
1699101822 (Internal Connections)	$18,434	$0	$18,434
1699101876 (Internal Connections)	$7,716	$0	$7,716
Total	**$42,023**	**$0**	**$42,023**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts paid after September 5, 2017, for FRN 1699101803, 1699101822 and 1699101876, as identified above in the commitment adjustment.

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

Beneficiary Response

We submit that form 470 included the words and "all Broadband Deployment components." That includes any equipment necessary to deploy broadband. The IC contract was uploaded in EPC, the application was reviewed by USAC and funded. The form 486 was accepted and the BEAR requests were reviewed and disbursed.

Auditor Response
The Beneficiary references the "broadband deployment components" language from the FCC Form 470 as the foundation for its response; however, the Beneficiary's response does not consider the context of this phrase. The Form 470 refers to "broadband deployment components" in the context of MIBS related to existing broadband deployment components, not the purchase of additional broadband components. As such, the purchase of additional broadband components constitutes a cardinal change from the type of Category 2 service that the Beneficiary originally solicited on its FCC Form 470. The Beneficiary was therefore required to post a new FCC Form 470 and re-start the 28-day waiting period when it determined that its requirements had changed, to allow for a proper competitive bidding process per 47 C.F.R. § 54.503(a); however, the Beneficiary did not do so. The Beneficiary's response does not indicate why the Beneficiary did not abide by the competitive bidding process requirements. As such, our position regarding the finding does not change.

Finding No. 2, 47 C.F.R. § 54.511 – Inadequate Competitive Bidding Evaluation Process

Condition
The Beneficiary did not follow an adequate competitive bidding evaluation process that met SLP bidding requirements when awarding contracts. Specifically, we noted the following violations:

1. The Beneficiary's method of assessing bid proposals was not consistent with its own internal bid evaluation process. The Beneficiary used a bid evaluation matrix/bid sheet to evaluate bid proposals for cellular voice services from AT&T, Sprint, and Verizon. We reviewed the proposals and the bid sheet and determined that the Beneficiary did not assign the raw scores correctly. Sprint offered the lowest price; however, the Beneficiary assigned it a price score that was lower than was the price score that the Beneficiary assigned to the more favorably rated AT&T. In addition, AT&T and Verizon offered the same pricing under the state master contract; however, the Beneficiary assigned AT&T a more favorable price score. Below we provide a comparison of the bid information and the raw price scores:

Service Provider	Description Per Proposal	Raw Price Score
AT&T	Nationwide 400 Voice/Data/Text, 12 lines @ $49.61 each (unlimited data for each)	4
Verizon	Nationwide 400 Voice/Text/Data $49.61 per line (unlimited data for each)	3
Sprint	Voice/Data/Text, 12 lines @ $15 each (unlimited anytime-eligible minutes, unlimited messaging, 1 GB Pooled data, $10 per GB for data overage)	3

The Beneficiary also inaccurately calculated the weighted scores on the bid evaluation sheet. Although it appropriately assigned the most weight to price, we noted several instances in which two carriers received identical raw scores but different weighted scores. As a result, Verizon's weighted score was higher than was Sprint's weighted score, even though their raw scores were identical.

In addition, we noted that the Beneficiary's contract with the selected service provider, AT&T, included terms that differed from those included on the bid evaluation sheet. The bid sheet indicated that the service providers would provide cellular voice service bundles that included voice, data, and texting; however, the final contract with AT&T indicated that AT&T would bill data separately. This does not represent an exception, as Beneficiaries are free to negotiate better pricing or terms to fit their needs; however, it represents a weakness in the bid evaluation process, as it is possible that another carrier could have provided better terms if the bidders had been encouraged to propose alternative billing plans.

2. The Beneficiary selected AT&T as the successful service provider and signed a contract with AT&T on February 8, 2016; however, the Beneficiary did not complete the bid evaluation until February 29, 2016. Although the bid evaluation ultimately supported the decision to select AT&T, the Beneficiary may not have a signed contract before completing the bid evaluation.

3. The Beneficiary's bid evaluation documentation for this procurement does not support the related FCC Form 471s. The Beneficiary requested $4,132 ($8,265 discounted at the Beneficiary's 50 percent discount rate) under FRN 1699042899 for cellular voice services procured from AT&T. However, the Beneficiary also requested an additional $1,159 ($2,318 discounted at the Beneficiary's 50 percent discount rate) under FRN 1699042898 for cellular voice services procured from Verizon. There was no bid analysis documentation provided to support the selection of Verizon for FRN 1699042898. The Form 471 for the AT&T services included 11 voice-only lines at a monthly recurring eligible unit cost of $63 per line, while the Form 471 for the Verizon services included 24 voice-only lines at a monthly recurring eligible unit cost of $8 per line.

   As noted, the Beneficiary contracted with AT&T for cellular voice services on February 8, 2016; as such, it is duplicative for the Beneficiary to hold an additional FRN for identical cellular voice services procured from Verizon. In addition, the estimates included on the FCC Form 471s are not supported by the proposals that AT&T and Verizon submitted during the competitive bid evaluation process. We also noted that the Beneficiary only requested and received approval for voice services on the FCC Form 471s; however, it obtained proposals for bundled voice/data/text services. Below we provide a comparison of the information included in the proposals and the FCC Form 471s for each service provider:

FRN	Service Provider	Product as Described in Proposal	Product as Described on FCC Form 471	Monthly Recurring Unit Eligible Costs Per Proposal	Monthly Recurring Unit Eligible Costs Per FCC Form 471	Monthly Quantity Per Proposal	Monthly Quantity Per FCC Form 471	Total Eligible Recurring Costs Per Proposal (C&C calculation)	Total Eligible Recurring Costs Per FCC Form 471
1699042898	Verizon	Nationwide 400 Voice/ Text/Data	Cellular Voice with no Data and/or Text Messaging	$49.61	$8.05	Could not determine; not in proposal	24	Could not be determined, not in proposal	$2,318.40
1699042899	AT&T	Nationwide 400 Voice/ Data/Text	Cellular Voice with no Data and/or Text Messaging	$49.61	$62.61	12	11	$7,143.84	$8,264.52

For FRN 1699042898, the Service Provider invoiced SLP $750 as of September 5, 2017, however, it invoiced an additional $1,310 for a total of $2,060 disbursed during the funding year. We inquired with the Beneficiary regarding the duplicative services; the Beneficiary determined that it was not using the Verizon services under FRN 1699042898 and submitted a FCC Form 500 to cancel the FRN during our fieldwork.

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the competitive bidding process.

Effect
The monetary effect for this finding is $2,060 which represents the $750 in which SLP was invoiced as of the announcement date and an additional $1,310 that was invoiced after the announcement date, but within the funding year for FRN 1699042899. The Beneficiary did not invoice the SLP for $1,159 incurred under FRN 1699042898 during the funding year and cancelled this FRN during our fieldwork. The recommended commitment adjustment of $5,291 is the full post-discount amount committed for both of these FRNs.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699042899 (Voice)	$2,060	$750	$4,132
1699042898 (Voice)	$1,159	$0	$1,159
Total	**$3,219**	**$750**	**$5,291**

Recommendation
We recommend that:

1. USAC seek recovery of the amount paid after September 5, 2017, for FRN 1699042899 as identified above in the monetary effect.

2. USAC reduce the commitment accordingly.

3. The Beneficiary implement stronger controls to ensure that it uses an adequate competitive bidding process.

Beneficiary Response

> *A reconfiguration of the bid sheet to reflect properly weighted factors yielded the same results. In addition, changing the price factor raw scores would yield similar results. Therefore, the issue is moot and recovery of any disbursed funds is unfounded and not supported by the facts.*

Auditor Response
The Beneficiary's response did not address why the Beneficiary signed a contract with AT&T before completing the bid evaluation process, nor did it explain why the Beneficiary procured duplicative cellular voice services. The Beneficiary provided an undated, unsigned reconfigured bid sheet as support for its claim that a reconfiguration of the bid sheet yielded the same results; however, this revised bid sheet did not correct for the improper assignment of the highest price scores to AT&T. Additionally, the Beneficiary did not address why it had improperly weighted

the scores in the original assessment. As a result, our position regarding the finding does not change.

Finding No. 3, 47 C.F.R. §54.502(b) – Beneficiary Inaccurately Calculated Category 2 Budget

Condition

The Beneficiary overestimated its student enrollment and eligibility on its Funding Year (FY) 2016 FCC Form 471 No. 161045524. Specifically, when completing its Form 471, the Beneficiary estimated its student enrollment at 380 students, 315 of whom would be eligible for free or reduced-price lunches. Based on this estimate, the Beneficiary calculated an eligibility percentage of 83 percent, resulting in an 85 percent discount rate for Category 2 funding. However, during our audit we determined that the Beneficiary only had 308 students, 276 of whom were eligible for free or reduced-price lunches based on the Beneficiary's use of the Community Eligibility Provision (CEP) as an alternative discount mechanism for the 2016-2017 school year. We recalculated the eligibility percentage based on the Beneficiary's actual student enrollment and eligibility and determined that the Beneficiary's actual discount rate was 90 percent.

Although the erroneous student enrollment and eligibility estimate did not impact the Beneficiary's eligibility discount percentage, it did cause the Beneficiary to incorrectly calculate its budget for Category 2 (C2) funding. The Beneficiary had originally calculated its C2 budget as $57,570; however, we recalculated the C2 budget based on the corrected student enrollment and eligibility data and determined that the Beneficiary's C2 budget should have been $46,662 pre-discount ($39,663 when discounted at the Beneficiary's 85 percent discount rate). Because FY 2016 is the second year of the Beneficiary's five-year C2 funding period, we considered both FY 2015 and FY 2016 when determining the impact of this error. The Beneficiary did not receive C2 funding during FY 2015, but received $42,023 in C2 funding during FY 2016. The Beneficiary therefore exceeded its allowable C2 budget spending by $2,360, the difference between the corrected discounted C2 budget of $39,663 and the actual C2 disbursements of $42,023.

The table below provides additional details.

Revised Actual Student Enrollment	C2 Budget Available Based on Correct Student Enrollment (308*151.50= $46,662 Discounted at Beneficiary's 85% Discount Rate)	Amount of C2 Budget Committed and Spent in FY 2015	C2 Budget Available for FY 2016	Amount Originally Committed and Spent in FY 2016 (Based on Incorrect Student Count)	Excess C2 Budget Spending
308	$39,663	$0	$39,663	$42,023	$2,360

Cause
The Beneficiary did not have adequate processes in place to ensure that it used accurate enrollment and eligibility estimates when completing its Form 471 submission.

Effect
The monetary effect and commitment adjustment for this finding is $2,360. We calculated the amount for each individual FRN by allocating the overall effect proportionally among the three FRNs based on their respective commitments. The Beneficiary had not invoiced SLP for these FRNs until after the audit announcement date, September 5, 2017, and therefore, there were no disbursements within the audit period. However, the full amount was disbursed before the end of the funding year.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
FRN 1699101803 (Internal Connections)	$892	$0	$892
FRN 1699101822 (Internal Connections)	$1,035	$0	$1,035
FRN 1699101876 (Internal Connections)	$433	$0	$433
Totals	**$2,360**	**$0**	**$2,360**

Recommendation
We recommend that:

1. USAC seek recovery of the amounts paid after September 5, 2017, for FRN 1699101803, 1699101822 and 1699101876, as identified above in the commitment adjustment.

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

Beneficiary Response

> *Schools have fluid populations that vary throughout the school year. State data that is available Online is usually old data. Attendance data taken when the form 471 was filed that takes an accurate snap shot of enrollment supports a higher student count. As such any reduction of requests based upon a budget violation is not supported by the data.*

Auditor Response
We understand that student populations change over the funding period; however, the Beneficiary was responsible for determining its actual student enrollment and eligibility data when reporting this information on its FCC Form 471 application. It is critical that student enrollment and eligibility data are accurate, as this information factors into the Beneficiary's calculation for its C2 budget. The Beneficiary did not provide an explanation as to why it did not correctly calculate its C2 funding, as detailed in this finding. As a result, our position regarding the finding does not change.

Finding No. 4, 47 C.F.R. § 54.503(c)(4) – Beneficiary Did Not Comply with the 28-Day Waiting Period Before Selecting a Service Provider

Condition
The Beneficiary did not conduct a fair and open competitive bidding process, as it signed a contract for FRN 1699042899 before the allowable contract date. Specifically, the Beneficiary was required to keep the bidding period open for 28 days after posting its FCC Form 470. The Beneficiary posted the Form 470 for FRN 1699042899 on January 20, 2016; as such, it was not allowed to enter into a contract for the services prior to February 17, 2016. However, the Beneficiary signed a contract with AT&T on February 8, 2016, nine days before the allowable contract date.

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the competitive bidding process and the requirement to wait 28 days before signing a contract.

Effect
The Service Provider had invoiced SLP for FRN 1699042899 for $750 as of the audit announcement date. An additional $1,310 was invoiced after the audit announcement date. Therefore, the monetary effect is $2,060. The recommended commitment adjustment for this finding is $4,132, or the full post-discount amount committed for this FRN.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699042899 (Voice)	$2,060	$750	$4,132

Recommendation
We recommend that:

1. USAC seek recovery of the amount paid after September 5, 2017, for FRN 1699042899, as identified above in the monetary effect.

2. USAC reduce the commitment amount accordingly.

3. The Beneficiary implement stronger controls to ensure that it complies with the 28-day waiting period before selecting a service provider.

Beneficiary Response

The Beneficiary submits that the contract with AT & T was done outside of the E-rate process. Its former carrier terminated service February 4, 2018 and the school was forced to secure a replacement vendor immediately. AT & T contracted services was not for service to begin July 1, 2016. This vendor should be considered a previously signed *contracted service which is a standing bid and during the evaluation process was chosen as the best service for the school.*

Auditor Response

The Beneficiary's response references a change in service providers that occurred in 2018 and that is therefore unrelated to the Funding Year under audit. Further, the Beneficiary indicates that its contract with AT&T was outside the E-rate process; however, it does not provide an explanation as to why it believes this to be the case, nor does the contract documentation support this assertion. The AT&T contract that the Beneficiary provided us and that we used for testing is dated February 8, 2016, and the contract terms state, "Agreement is for an initial term beginning on the Effective Date and continuing for a period of two years," and "effective date is the date the Customer accepted the Agreement via AT&T's electronic AMB Agreement Acceptance process." The effective date of the contract/agreement was therefore February 8, 2016. The contract does not indicate that services were a continuation of previous services. Finally, the Beneficiary did not provide an explanation as to why it signed the contract before the allowable contract date, as detailed in the finding. Additionally, the Beneficiary did not provide any other contract to document its compliance with E-rate rules requiring that it have a signed contract or other legally binding agreement before filing its FCC Form 471. As a result, our position regarding the finding does not change.

Finding No. 5, FCC Form 472, at 3 – Beneficiary Over-Invoiced SLP for Equipment Not Received

Condition

The Beneficiary invoiced the SLP under FRN 1699101822 for UPS/Battery Backup equipment that it never received. The Beneficiary requested, and the SLP approved, $21,687 of equipment under FCC Form 471 Application No. 161045524, including one UPS/Battery Backup at a unit cost of $579. The Beneficiary submitted one BEAR related to this equipment under FRN 1699101822, and USAC disbursed the full committed amount. However, the Beneficiary never received the UPS/Battery Backup, and the service provider did not bill the $579. As a result, the SLP over-disbursed $492 for this equipment ($579 discounted at the Beneficiary's 85 percent discount rate).

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the submission of invoices for approved equipment supported by the SLP. Additionally, the Beneficiary did not have adequate controls and procedures in place to ensure that it only invoices the SLP for the discounted costs of eligible equipment approved by the SLP and received from the service provider.

Effect

Because the Beneficiary did not have adequate controls and procedures in place, it overstated its undiscounted eligible costs. The monetary effect and commitment adjustment for this finding is $492. The Beneficiary had not invoiced SLP for these FRNs until after the announcement date, and therefore, there were no disbursements within the audit period. However, the full amount was disbursed during the funding year.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
1699101822 (Internal Connections)	$492	$0	$492

Recommendation
We recommend that:

1. USAC seek recovery of the amount paid after September 5, 2017, for FRN 1699101822, as identified above in the commitment adjustment.

2. The Beneficiary implement stronger controls to prevent it from invoicing the SLP for equipment that it did not receive.

Beneficiary Response

Invoice 4035 dated 5/23/17 indicates the UPS unit was supplied and installed.

Auditor Response
The Beneficiary's response references Invoice #4035; however, Invoice #4035 is not relevant to this finding. We reviewed Invoice #4035 during our invoice testing and noted that the invoice had been issued by Connectivity Communications, Inc. for a total of $2,337. Invoice #4035 references three UPS/Data Protection units at $779 per unit and includes the following product description: "Cyberpower 2U PFC Presinewave Tower/Rack UPS System 2150 VA 1980 W, Item Code #PR2200LCDR2UN." This finding refers to a different UPS/Battery Backup unit with a unit cost of $579. As a result, our position regarding the finding does not change.

Finding No. 6 – 47 C.F.R. § 54.504(d) – Beneficiary Did Not Receive an Approved Service Substitution

Condition
The Beneficiary substituted products and services under FRN 1699042896 without filing a service substitution form with the SLP. As a result, the Beneficiary received products and services that had not been approved by the SLP. Specifically, we compared the products listed on the approved FCC Form 471 to the products listed on the Form 471, original services contract and the invoice description for this FRN and noted the following:

FRN	Service Provider	Product as Described on FCC Form 471	Description per Contract	Description Per Invoice
1699042896	Time Warner Cable	Copper; Cable Modem; 50 Mbps Up/Down	Fiber with Internet	Internet Access

Based on documentation provided by the Service Provider (Time Warner Cable), the original contract dated June 30, 2015 indicates Fiber Internet as the services being provided. A network diagram also provided by the Service Provider shows 100M as the service speed. However, the Beneficiary requested and was approved on the FCC Form 471 for Copper Cable.

Cause
The Beneficiary did not have processes in place to ensure that the invoiced services matched the contracted services.

Effect
There is no monetary effect, recommended recovery, or commitment adjustment for this finding. However, by not submitting the required service substitution forms to USAC after changing its requirements from those originally approved on the Form 471, the Beneficiary is at an increased risk of future exceptions. We therefore noted a compliance finding.

FRN/Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
(1699042896) Internet Access	$0	$0	$0

Recommendation
We recommend that the Beneficiary implement controls to ensure that it submits service substitution requests when contract and invoice descriptions change from those on the approved Form 471.

Service Provider Response

> *In response to Funding Year 2013 FCC Form 470 Application Number 945290001082024, Charter Communications (formerly Time Warner Cable) quoted and installed 100 MBPS Fiber Internet at the monthly cost of $1,650.00.*
>
> *FCC Form 470 Application Number 945290001082024 requested, "At least 50 MB Service or greater (please proved scalable service options.) Must include any installation costs and have an RJ45 Ethernet handoff to the School's network.*
>
> *Due to the original request of 50 MBPS or greater, it seems the intention of the School was to capture the lowest cost service option while offering the greatest level of bandwidth.*

100 MBPS Fiber Internet Services installed in 2013 remained active through the end of Funding Year 2016 when the School relocated from 2501 Plum St, Erie, PA 16502 to 1006 W 10th St., Erie, PA 16502.

We have provided invoice copies from July 2016 through July 2017, signed agreements from 2013 and 2015, and the original Network Diagram.

Beneficiary Response

We submit that the Beneficiary requested and paid for Cable service at a 50/50 level. It was in an MTM arrangement for over five years and had no reason to believe there were any changes with service. Without consulting with the Beneficiary, the vendor substituted a superior service without any increase in price.

Therefore, the school should not be penalized in any way by being cited for an unreasonable Finding for issues out of its control. At most the vendor should be censured for its actions. Although receiving superior services at the most cost effective prices is certainly within the scope of the 1996 Telecommunications Act and such actions are illogical and self-defeating.

Auditor Response

We revisited the original finding based on the Service Provider's response and supporting documentation and ultimately removed the finding from this report. However, in reviewing the Service Provider's supporting documentation, we determined that the Beneficiary had performed an unauthorized service substitution. As a result, we issued the current finding and requested and received a response from the Beneficiary, included above. Below is our response to the Beneficiary.

Beneficiaries may only obtain reimbursement from the SLP for products for which the Beneficiary requested and received the SLP's approval. If the services change during the funding year, Beneficiaries must process an FCC Form 500 to enable the SLP to evaluate the cost-effectiveness of the services received. As noted in the Effect section of this finding, we assumed that the SLP would have approved the change in service and therefore did not recommend recovery of funding; however, because the Beneficiary did not submit a Form 500 for the service substitution, it was not in compliance with the program requirements. The Beneficiary and Service Provider both provided invoices indicating that the Service Provider had installed and was billing for fiber internet services; as such, it is evident that the Beneficiary was or should have been aware that the services being rendered and billed were not the services approved by the SLP. Further, it is the Beneficiary's responsibility to ensure that it complies with the program requirements when services change. As a result, our position regarding the finding does not change.

Criteria

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

Finding	Criteria	Description
		(1) *An eligible school, library, or consortium that includes an eligible school or library seeking bids for eligible services under this subpart shall submit a completed FCC Form 470 to the Administrator to initiate the competitive bidding process. The FCC Form 470 and any request for proposal cited in the FCC Form 470 shall include, at a minimum, the following information:* ***(i)*** *A list of specified services for which the school, library, or consortium requests bids;* ***(ii)*** *Sufficient information to enable bidders to reasonably determine the needs of the applicant;*
1	USAC Schools and Libraries News Brief, July 17, 2015	*After you have certified an FCC Form 470 on the USAC website, you can add more RFP documents but you cannot remove any that were already attached. Note, however, that if you are making a cardinal change to what you have already posted – such as adding additional speeds, products or services, or locations or entities – you must post a new FCC Form 470.*
2	47 C.F.R. § 54.511 (2015).	***(a) Selecting a provider of eligible services****. Except as exempted in § 54.503(e), in selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.*
3	47 C.F.R. §54.502(b) (2015).	***(1) Five-year budget.*** *Each eligible school or library shall be eligible for a budgeted amount of support for category two services over a five-year funding cycle beginning the first funding year support is received. Excluding support for internal connections received prior to funding year 2015, each school or library shall be eligible for the total available budget less any support received for category two services in the prior funding years of that school's or library's five year funding cycle. The budgeted amounts and the funding floor shall be adjusted for inflation annually in accordance with § 54.507(a)(2).* *(2) School budget. Each eligible school shall be eligible for support for category two services up to a pre-discount price of $150 per student over a five-year funding cycle. Applicants shall provide the student count per school,*

Finding	Criteria	Description
		calculated at the time that the discount is calculated each funding year. New schools may estimate the number of students, but shall repay any support provided in excess of the maximum budget based on student enrollment the following funding year.
4	47 C.F.R. § 54.503(c) (2015).	*After posting on the Administrator's Web site an eligible school, library, or consortium FCC Form 470, the Administrator shall send confirmation of the posting to the entity requesting service. That entity shall then wait at least four weeks from the date on which its description of services is posted on the Administrator's Web site before making commitments with the selected providers of services. The confirmation from the Administrator shall include the date after which the requestor may sign a contract with its chosen provider(s).*
5	Schools and Libraries (E-rate) Program, FCC Form 472 (BEAR) User Guide, at 4, 18.	*ALL of the following conditions must occur before the applicant prepares and submits an FCC Form 472 to USAC:* *1. The applicant receives a Funding Commitment Decision Letter (FCDL) from USAC which approves discounts for services; AND* *2. The applicant is already receiving or has received these services and has already paid the full cost of the services, including the price of the discounts; AND* *3. The applicant has filed an FCC Form 486, Receipt of Service Confirmation and Children's Internet Protection Act Certification Form; AND* *4. The applicant has filed an FCC Form 498, Service Provider and Billed Entity Identification Number and General Contact Information Form, to provide banking information; AND* *5. The service provider has filed an FCC Form 473, Service Provider Annual Certification Form.* *Block 3: Billed Entity Certification:* *A. The discount amounts listed in this Billed Entity Applicant Reimbursement Form represent charges for eligible services and/or equipment delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.*

Finding	Criteria	Description
		B. The discount amounts listed in this Billed Entity Applicant Reimbursement Form were already billed by the Service Provider and paid for by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities. *C. The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by USAC pursuant to a Funding Commitment Decision Letter (FCDL).*
6	47 C.F.R. § 54.504(d) (2015).	*Service Substitution* ***(1)*** *The Administrator shall grant a request by an applicant to substitute a service or product for one identified on its FCC Form 471 where:* ***(i)*** *The service or product has the same functionality;* ***(ii)*** *The substitution does not violate any contract provisions or state or local procurement laws* ***(iii)*** *The substitution does not result in an increase in the percentage of ineligible services or functions; and* ***(iv)*** *The applicant certifies that the requested change is within the scope of the controlling FCC Form 470, including any associated Requests for Proposal, for the original services.*

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