



Schools & Libraries

Audit Reports Briefing Book

Monday, January 25, 2021

Virtual Meeting

Universal Service Administrative Company

700 12th Street NW, Suite 900

Washington, DC 20005

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: October 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Aldine Independent School District Attachment A	2	<ul style="list-style-type: none"> • <u>Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process</u> – The IP Flex (VoIP) service received was not requested on the FCC Form 470 or the RFP and was therefore not evaluated as part of the competitive bidding process. • <u>Beneficiary Over-Invoiced SLP for the Incorrect Discount Rate due to Mis-categorization of the Service</u> – The Beneficiary classified IP Flex service as Data Transmission and/or Internet Access, but as a VOIP service it is only eligible under the Voice Services category and receives a different discount rate. 	\$6,848,049	\$15,775	\$9,467	\$0	N
Bibb County School District Attachment B	1	<ul style="list-style-type: none"> • <u>Service Provider Over-Invoiced SLP for Ineligible Services</u> - The Service Provider invoiced the Schools and Libraries Program (SLP) for the cost of ineligible services. 	\$3,021,015	\$3,890	\$316	\$0	Y

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Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Dillingham City School District Attachment C	0	<ul style="list-style-type: none"> Not Applicable 	\$791,251	\$0	\$0	\$0	N
Fontana Unified School District Attachment D	0	<ul style="list-style-type: none"> Not Applicable 	\$5,721,491	\$0	\$0	\$0	N
Houston County School District Attachment E	2	<ul style="list-style-type: none"> <u>Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Students</u> - Out of the 37 schools within the school district, the Service Provider over-invoiced SLP for services delivered to 20 schools that included students in the ineligible pre-kindergarten program. 	\$2,566,543	\$49,457	\$49,457	\$0	Y
Jefferson City School District Attachment F	2	<ul style="list-style-type: none"> <u>Beneficiary Inaccurately Calculated Category Two (C2) Budgets</u> -The Beneficiary used inaccurate enrollment numbers in calculating its Funding Year 2017 C2 budget. 	\$390,465	\$5,630	\$5,630	\$5,630	N

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Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Jewish Institute of Queens Attachment G	3	<ul style="list-style-type: none"> <u>The Beneficiary Did Not Demonstrate it Selected the Most Cost-Effective Service Offering</u> - The Beneficiary did not select the most cost-effective service offering. 	\$215,562	\$155,991	\$155,816	\$155,991	Y
Lake Norman Charter School Attachment H	1	<ul style="list-style-type: none"> <u>Failure to Comply with Competitive Bidding Requirements – Price Was Not the Primary Factor</u> - The Beneficiary was unable to provide sufficient documentation to support that it had evaluated the overall cost-effectiveness of each bid in its contract award process. 	\$146,154	\$146,154	\$146,154	\$0	N
Pierce County Library System Attachment I	2	<ul style="list-style-type: none"> <u>Beneficiary Over-Invoiced USAC for Ineligible Services</u> - The Beneficiary submitted BEARs for ineligible and erroneous telephone services. <u>Beneficiary Over- Invoiced USAC for Services Delivered Outside of the Funding Year</u> - The Beneficiary billed USAC for Internet access services received after the end of the Funding Year. 	\$527,596	\$2,513	\$2,513	\$0	N

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Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Project Socrates Attachment J	1	<ul style="list-style-type: none"> <u>Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471</u> - The Beneficiary used an incorrect discount rate for Internet access services; specifically, five of its members used outdated data in calculating their discount rates. 	\$1,055,264	\$15,062	\$15,062	\$0	Y
Southwest Region School District Attachment K	0	<ul style="list-style-type: none"> Not Applicable 	\$2,796,214	\$0	\$0	\$0	N
Stevens Point Area School District Attachment L	1	<ul style="list-style-type: none"> Not Applicable 	\$122,900	\$0	\$0	\$0	N
Waynesville School District R6 Attachment M	1	<ul style="list-style-type: none"> Not Applicable 	\$92,367	\$0	\$0	\$0	N

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Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
William Penn School District Attachment N	3	<ul style="list-style-type: none"> • <u>Failure to Comply with Competitive Bidding Requirements</u> - The Beneficiary did not conduct a fair and open bidding process for voice services. • <u>The Beneficiary Over-Invoiced the SLP for Costs Exceeding the Service Provider's Bills</u> - The Beneficiary was unable to provide service provider bills to support the total undiscounted amount that it requested for voice services. 	\$327,134	\$57,023	\$30,455	\$30,455	N
Yeshivat Shaare Torah Attachment O	3	<ul style="list-style-type: none"> • <u>Failure to Comply with the Requests of an Audit</u> - The Beneficiary failed to provide documentation demonstrating compliance with FCC Rules. • <u>The Beneficiary Did Not Demonstrate it Selected the Most Cost-Effective Service Offering</u> - The Beneficiary selected their service at a cost that was three times more than the average cost of that same service throughout their applicable state. 	\$236,220	\$432,628	\$153,385	\$283,212	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Total	22		\$24,858,225	\$884,123	\$568,255	\$475,288	

* The Monetary Effect amount represents the actual dollar effect of the finding(s) without taking into account any overlapping exceptions between findings. Thus, the total Monetary Effect may exceed the Amount of Support that was disbursed to the Beneficiary.

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

Attachment A
SL2019BE051

*Aldine Independent School District
Audit ID: SL2019BE051
(BEN: 141224)*

*Performance audit for the Universal Service Schools and
Libraries Program Commitments and Disbursements
related to Funding Year 2017 as of September 30, 2019*

Prepared for: Universal Service Administrative Company

As of Date: September 25, 2020

KPMG LLP
200 East Randolph
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Chicago, IL 60601

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EXECUTIVE SUMMARY

September 25, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to the Aldine Independent School District, Billed Entity Number (“BEN”) 141224, (“Aldine” or “Beneficiary”) for disbursements of \$6,848,049 and commitments of \$7,032,281, made from the federal Universal Service Schools and Libraries Program related to the twelve-month period ended June 30, 2018, as of September 30, 2019 (hereinafter “Funding Year 2017”). Our work was performed during the period from October 25, 2019 to September 25, 2020 and our results are as of September 25, 2020.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objective of our work was to evaluate the Beneficiary’s compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program (“E-rate Program”) set forth in 47 C.F.R. Part 54 of the Federal Communications Commission’s (“FCC”) Rules as well as other program requirements (collectively, the “Rules”) that determined the Beneficiary’s eligibility and resulted in commitments of \$7,032,281 and disbursements of \$6,848,049 made from the E-rate Program related to Funding Year 2017. Compliance with the Rules is the responsibility of the Beneficiary’s management. Our responsibility is to evaluate the Beneficiary’s compliance with the Rules based on our audit.

As our report further describes, KPMG identified two findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to Funding Year 2017 were \$9,467 higher than they would have been had the amounts been reported properly.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated September 25, 2020.



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

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
Aldine	Beneficiary Abbreviation (“Aldine Independent School District”)
BEAR	Billed Entity Applicant Reimbursement
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
ESL	Eligible Services List
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 472	Billed Entity Applicant Reimbursement Form
FCC Form 474	Service Provider Invoice Form
FCDL	Funding Commitment Decision Letter
FRN	Funding Request Number
Funding Year 2017	The twelve-month period from July 1, 2017 to June 30, 2018 during which E-rate Program support is provided (as of September 30, 2019)
MIBS	Managed Internal Broadband Services
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund
VOIP	Voice Over Internet Protocol

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Overlapping Recovery¹ (B)	Recommended Recovery
<u>SL2019BE051-F01: Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process</u> – The IP Flex (VoIP) service received was not requested within either the FCC Form 470 or the specified RFP and was therefore not evaluated as part of the competitive bidding process.	\$ 9,467	\$ 0	\$9,467
<u>SL2019BE051-F02: Beneficiary Over-Invoiced SLP for the Incorrect Discount Rate due to Mis-categorization of the Service</u> – The Beneficiary classified IP Flex service as Data Transmission and/or Internet Access, but as a VOIP service it is only eligible under the Voice Services category and receives a different discount rate.	\$ 6,308	(\$6,308)	\$0
Total Net Monetary Effect	\$15,775	(\$6,308)	\$9,467

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

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>
- <https://www.usac.org/video/sl/10-comp-bidding/index.html>
- <https://www.usac.org/e-rate/applicant-process/invoicing/>
- <https://www.usac.org/e-rate/applicant-process/applying-for-discounts/funding-requests/>

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1799074779	\$9,467

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

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

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

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

Beginning in Funding Year 2015, the discount rate for all voice services will be reduced by 20%, and shall be reduced further by an additional 20% every subsequent funding year until Funding Year 2019 when voice services will no longer be funded through the E-rate Program. The discount rate reduction for voice services in Funding Year 2017 is 60%. This reduction applies to all expenses incurred for providing telephone services and increasing circuit capacity for providing dedicated voice services.

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$7,032,281 and disbursements of \$6,848,049 made for Funding Year 2017.

Beneficiary Overview

The Aldine Independent School District (BEN# 141224) is a school district located in Houston, Texas that serves nearly 70,000 students. Aldine is comprised of 82 campuses over 111 square miles in north Harris County. Aldine holds full accreditation from the Texas Education Agency.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2017 by service type:

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$6,680,207	\$6,504,435
Voice Services	\$352,074	\$343,614
Total	\$7,032,281	\$6,848,049

Source: USAC

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2017. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2017 as of September 30, 2019.

The committed total represents 4 FCC Form 471 applications with 7 FRNs, one of which was cancelled. We selected 5 FRNs, which represent \$6,983,390 or 99% of the funds committed and \$6,809,028 or 99% of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2017 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$7,032,281 and disbursements of \$6,848,049 made from the E-rate Program for Funding Year 2017. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2017 and disbursements received, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for Funding Year 2017.

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

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

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary and received by the Beneficiary for Funding Year 2017. The procedures conducted during this performance audit include the following:

1. Planning and Assessment

In collaboration with USAC, we assessed Beneficiary criteria to perform audit planning activities, including sampling, site visit considerations and audit approach. Using an agreed upon sampling methodology, we selected five FRNs in scope for this audit.

2. Application Process

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

3. Competitive Bid Process

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

4. Calculation of the Discount Percentage

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

5. Invoicing Process

For the FRNs audited, we obtained and examined invoices for which payment was disbursed by USAC to determine that the equipment and services claimed on the FCC Form 472 Billed Entity Applicant Reimbursements (BEARs) and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

6. Reimbursement Process

For the FRNs audited, we obtained and examined invoices submitted for reimbursement for the services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, we reviewed invoices associated with the BEAR forms for services provided to the Beneficiary. We verified that the services claimed on the BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate Program Eligible Services List.

7. Record Keeping

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

8. Final Risk Assessment

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

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary responses with respect to the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2017 commitments and disbursements made from the E-rate Program.

Findings, Recommendations and Beneficiary Responses

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

Finding No.	<u>SL2019BE051-F01: Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process</u>
Condition	The IP Flex (VoIP) service received under FRN 1799074779 was requested in the FCC Form 471 No. 171000544 but was not requested in either the RFP or the originating FCC Form 470 No. 762390001269262 nor was it evaluated as part of the initial competitive bidding process. The separate contract entered for this service does not align with the RFP and FCC Form 470. IP Flex was not eligible for reimbursement as there was not a fair and open competitive bidding process for this service.
Cause	At the time of the initial RFP, the Beneficiary did not intend to request E-rate funding for the IP Flex service in use. However, upon expanding the number of IP Flex lines two years later, the Beneficiary began applying for E-rate Funding for the IP Flex service, but did not remember that the service was not requested in the initial RFP or FCC Form 470.
Effect	The monetary effect of this finding is an over disbursement of \$9,467 under FRN 1799074779.
Recommendation	The Beneficiary should review the RFP and FCC Form 470 service requests when preparing the FCC Form 471 reimbursement request to ensure that all services requested for reimbursement were requested in the RFP and/or FCC Form 470 and included in the competitive bidding process.
Beneficiary Response	In researching this finding, we discovered that we did not specify VoIP or SIP lines in the RFP nor [FCC] Form 470. At the time that we released the RFP we did not have any VoIP systems in the district. However, we were in the process of making recommendations for a Bond Referendum which included upgrading all phone systems in the district to VoIP. In July of 2015, we leased two SIP lines from AT&T to begin testing VoIP systems. We did not apply for E-Rate funding in Funding year 2015 nor in 2016. Since the Bond Referendum passed in November 2015, we were implementing VoIP systems throughout the district in 2016 and therefore increasing our number of SIP/IP Flex lines from AT&T. With the increase in expenditures, we decided to apply for E-Rate funding for the SIP/IP Flex. But since it had been two years since the RFP had been released, we did not remember that it was not specifically included in the original RFP and that it was not considered part of the local phone services that were included in the RFP. For Funding year 2018, we

discovered that we could release separate RFPs for local phone service (POTS, Plexar, PRI) and SIP lines.

Finding No.	<u>SL2019BE051-F02: Beneficiary Over-Invoiced SLP for the Incorrect Discount Rate due to Mis-categorization of the Service</u>
Condition	Under FRN 1799074779, the Beneficiary requested and received reimbursement for IP Flex (VoIP) services that were classified as the incorrect service type. The service type was filed as “Data Transmission and/or Internet Access” rather than “Voice Services”. According to the FY 2017 Eligible Services List, VoIP is only eligible under Voice Services. Given the reduction in discount rate for Voice Services, the Beneficiary received a discount rate 60% greater than it would have if the service type was correctly classified as Voice Services.
Cause	The Beneficiary did not understand that IP Flex should be classified as a Voice Service rather than under the Data Transmission and/or Internet Access classification.
Effect	The monetary effect of this finding is an over disbursement of \$6,308 under FRN 1799074779. The monetary effect of this finding overlaps with the monetary effect in Finding SL2019BE051-F01 .
Recommendation	The Beneficiary should review the ESL in order to ensure proper classification of service types requested for reimbursement through the E-rate program.
Beneficiary Response	Funding Year 2017 was the first year that we applied for funding for SIP/IP Flex lines. We incorrectly filed for this service as “Data Transmissions and/or Internet Access” rather than “Voice Services”. For Funding year 2018, we filed for this service as “Voice Services”.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 54.503 (c)(1)(i)-(ii) (2016)	“(c) <i>Posting of FCC Form 470.</i> (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	47 C.F.R. § 54.504(a) (2016)	“(a) <i>Filing of the FCC Form 471.</i> An eligible school, library, or consortium that includes an eligible school or library seeking to receive discounts for eligible services under this subpart shall, upon entering into a signed contract or other legally binding agreement for eligible services, submit a completed FCC Form 471 to the Administrator.”
#2	47 C.F.R. § 54.502(a) (2016)	(a) Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms. The supported services fall within the following general categories:
#2	<i>Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Order, 29 FCC Rcd 8870, 8927 para. 141 (2014).</i>	“ The reduced discount rates for voice services will apply to all applicants and all costs incurred for the provision of telephone services and circuit capacity dedicated to providing voice services including: local phone service, long distance service, plain old telephone service (POTS), radio loop, 800 service, satellite telephone, shared telephone service, Centrex, wireless telephone service such as cellular, and interconnected VoIP.

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified two findings, Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process and Beneficiary Over-Invoiced SLP for the Incorrect Discount Rate due to Mis-categorization of the Service. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

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

Service Type	Monetary Effect of Audit Results	Overlapping Recovery	Recommended Recovery
Voice Services	\$15,775	\$6,308	\$9,467
Total Impact	\$15,775	\$6,308	\$9,467

KPMG recommends that the Beneficiary review the RFP and FCC Form 470 service requests when preparing the FCC Form 471 reimbursement request to ensure that all services requested for reimbursement were requested in the RFP and/or FCC Form 470 and that the Beneficiary review the ESL in order to ensure proper classification of service types requested for reimbursement through the E-rate program.

Attachment B
SL2017LR066



Bibb County School District

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR066

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Finding #1: 47 C.F.R. § 54.502(a) (2015) - Service Provider Over-Invoiced SLP for
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EXECUTIVE SUMMARY

June 16, 2020

Dr. Curtis L. Jones Jr., Superintendent
Bibb County School District
484 Mulberry Street
Macon, GA 31201

Dear Dr. Jones:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Bibb County School District (Beneficiary), Billed Entity Number (BEN) 127456, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

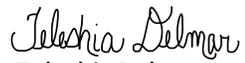
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable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

Based on the test work performed, our examination disclosed one detailed audit finding (Finding) discussed in the Audit Result and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in cursive script that reads "Teleshia Delmar".

Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULT AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.502(a) (2016) - Service Provider Over-Invoiced SLP for Ineligible Services. The Service Provider invoiced the Schools and Libraries Program (SLP) for the cost of ineligible services.	\$3,890	\$316	\$0
Total Net Monetary Effect	\$3,890	\$316	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Result stated above. See the chart below for the recovery amount. If there are other FRNs under the scope of the finding there will be additional recoveries and/or commitment adjustments. USAC will request the Service Provider provide copies of policies and procedures implemented to address the issue identified. USAC also refers the Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>
- https://www.usac.org/video/sl/sp/2019/advanced-invoicing/story_html5.html
- <https://www.usac.org/e-rate/learn/webinars/>

USAC records show the Service Provider is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Service Provider to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1699108942	\$316

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$1,226,984	\$1,185,767
Managed Internal Broadband Services	\$267,601	\$267,601
Internet Access	\$1,898,100	\$1,469,705
Voice	\$203,697	\$97,942
Total	\$3,596,382	\$3,021,015

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

The committed total represents two FCC Form 471 applications with 76 Funding Request Numbers (FRNs). AAD selected 10 of the 76 FRNs¹, which represent \$2,363,587 of the funds committed and \$1,862,390 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a public school district located in Macon, Georgia that serves over 24,000 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

B. Competitive Bid Process

¹ The FRNs included in the scope of this audit were: 1699093880, 1699094231, 1699094236, 1699095579, 1699095774, 1699095826, 1699096333, 1699096337, 1699108942, and 1699108947.

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. AAD evaluated the equipment and services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDING

FINDING #1: 47 C.F.R. § 54.502(a) (2015) - Service Provider Over-Invoiced SLP for Ineligible Services

CONDITION

AAD obtained and examined the FCC Form 474, Service Provider Invoice (SPI) forms and the corresponding service provider bills provided by the Beneficiary to determine whether the Schools and Libraries Program (SLP) was invoiced only for eligible voice services for FRN 1699108942. The Service Provider, Verizon Wireless, did not deduct the total pre-discounted costs of ineligible charges for Device and Messaging charges from its SPI Forms nos. 2640263 and 2675192.²

The Service Provider invoiced SLP on its SPI Forms nos. 2640263 and 2675192 for a total pre-discounted amount of \$82,390 for FRN 1699108942. However, the total pre-discounted amount of eligible, approved services that was supported by the service provider bills totaled \$61,317.³ The difference between the pre-discounted costs invoiced to SLP by the Service Provider and the pre-discounted costs of eligible services supported by the service provider bills was \$21,073.⁴ Thus, the Service Provider over-invoiced SLP for \$10,537 (\$21,073 * the Beneficiary's 50 percent discount rate) for ineligible services.

CAUSE

The Service Provider did not have adequate controls and procedures in place to ensure that SLP is invoiced only for the discounted costs of approved, eligible services. The Service Provider informed SLP and AAD that its billing system erroneously applied the incorrect E-rate service plan rates to the Beneficiary's service provider bills for the Funding Year, which overstated the amount of eligible voice services.⁵ Further, the Beneficiary's service provider bills did not include an adequate level of billing detail to identify all ineligible charges during the funding year.

EFFECT

The monetary effect of this finding is \$10,537. This amount represents the total discounted costs of the ineligible services that were invoiced to and disbursed by SLP for FRN 1699108942.

² See *Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, 30 FCC Rcd 9923, 9936 (2015) (2016 Eligible Services List).

³ *Schools and Libraries (E-Rate) Program FCC Form 474 (SPI) User Guide*, at 11.

⁴ The Service Provider, E-Rate Team at Verizon Wireless, provided AAD with E-Rate cost allocations of the service plans billed to the Beneficiary on May 1, 2018. AAD used the E-Rate cost allocations to determine the amount of eligible and ineligible services billed to the Beneficiary.

⁵ See letter to Catriona Ayer, USAC Acting Vice President, Schools and Libraries Division from David L. Haga, Verizon Wireless.

RECOMMENDATION

AAD recommends USAC management seek recovery of \$10,537. The Service Provider must implement adequate controls and procedures to ensure SLP is invoiced only for eligible services. In addition, the Service Provider should provide an adequate level of billing detail to the Beneficiary, including cost allocations of device and messaging charges, to identify all eligible and ineligible charges incurred during the funding year.

BENEFICIARY RESPONSE

The finding is an issue with Verizon, as you noted. There is no noted issue with the district on this matter, and you are not asking for any action from the district.

SERVICE PROVIDER RESPONSE

Verizon Wireless has reviewed USAC's Monetary Effect Calculation for Bibb County Public Schools' FY 2016 FRN 1699108942. Based upon our review, it appears that USAC's calculation did not take into consideration eligible taxes and surcharges.

Please note that Verizon Wireless notified USAC of a SPI billing issue that affected certain customers, including this one, and in the case of FRN 1699108942, the issue resulted in an inadvertent over-invoicing of \$3,486.40 for E-rate funding. Verizon Wireless is working with USAC to return those funds.

AAD RESPONSE TO SERVICE PROVIDER RESPONSE

After learning that the Service Provider had informed USAC of a billing issue that impacted E-rate customers, AAD requested documentation from the Service Provider to determine whether the Service Provider's calculation for the "inadvertent over-invoicing of \$3,486.40..." as stated in the Service Provider's response, could be substantiated. When providing the requested documentation, the Service Provider informed AAD that it had recalculated the over-invoiced discounted amount again and determined that the amount was actually \$3,574. AAD examined the Service Provider's pricing plans and was able to differentiate the pricing between plans for only eligible services and plans that bundled eligible and ineligible services to determine the pre-discounted cost of ineligible services associated with FRN 1699108942. AAD then determined that the actual pre-discounted cost of eligible services billed to the Beneficiary, based on the documentation provided by the Service Provider, was \$74,611, which resulted in the Service Provider over-invoicing SLP for the pre-discounted costs of \$7,779 (\$82,390 - \$74,611). Therefore, the discounted costs over-invoiced to SLP was \$3,890 (\$7,779 * the Beneficiary's 50 percent discount rate), which is \$316 more than the \$3,574 represented by the Service Provider.

Based on the information above, the revised monetary effect of this finding is \$3,890 and AAD recommends USAC management seek recovery of \$3,890 less any funds that may have already been returned by the Service Provider related to the condition of this finding.

SERVICE PROVIDER RESPONSE TO AAD RESPONSE

The two amounts were different because they were calculated using different methodologies. The \$3,574.07 amount was calculated at the FRN level for the entire E-rate funding year. This FRN-level calculation accounts for adjustments made by customers after the bill cycle date, such as adding or disconnecting lines of service and changes in price plans, which would not be reflected on the customer bill for the month the changes were made. In contrast, the "Monetary Effect" calculation of \$3,889.50 was derived using USAC's month-by-month

methodology, but also included discounts applied to Bibb's eligible Federal Universal Service Fund (FUSF) charges during Funding Year 2016. Documentation of the eligible FUSF charges on Bibb's Funding Year 2016 bills is provided in response to [AAD's inquiry].

Verizon Wireless continues to believe that its calculations at the FRN level for the entire funding year will be more accurate than calculations made on a month-by-month basis because the FRN-level calculations take into consideration adjustments made after an impacted customer's bill cycle date, while the month-to-month calculations, which are merely snapshots in time, do not. Nevertheless, Verizon Wireless is willing to pay the Monetary Effect amount of \$3,889.50 in order to resolve this audit as expeditiously as possible. Verizon Wireless notes that, based on a review of its records, it has already reimbursed USAC \$3,573.56 for FRN 1699108942, leaving an outstanding balance of \$315.94.

AAD RESPONSE TO SECOND SERVICE PROVIDER RESPONSE

The Service Provider states that "Verizon Wireless continues to believe that its calculations at the FRN level for the entire funding year will be more accurate than calculations made on a month-by-month basis because the FRN-level calculations take into consideration adjustments made after an impacted customer's bill cycle date, while the month-to-month calculations, which are merely snapshots in time, do not." The Service Provider provided AAD with a calculation of its monetary effect of \$3,890. However, the Service Provider did not provide documentation to substantiate its FRN-level calculation and, therefore, AAD is unable to conclude whether the Service Provider's calculation of \$3,574 is accurate.

For these reasons, AAD's revised position, as stated in AAD's first response above, remains unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 CFR § 54.502(a) (2015).	<p>All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms. The supported services fall within the following general categories:</p> <p>(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.</p> <p>(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.</p>
#1	<i>Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Order, 30 FCC Rcd. 9923, 9936 (2015) (<i>2016 Eligible Services List</i>).	<p>Eligible voice services are subject to an annual 20 percentage point phase down of E-rate support beginning in FY 2015, as described in the E-rate Modernization Order. For FY 2016, the effective reduced discount rate will be 40 percentage points. The reduced discount rate for voice services will apply to all applicants and all costs for the provision of telephone services and circuit capacity dedicated to providing voice services including:</p> <ul style="list-style-type: none"> • Centrex • Integrated Services Digital Network (ISDN) • Interconnected voice over Internet protocol (VoIP) • Local, long distance, and 800 (toll-free) service • Plain old telephone service (POTS) • Radio loop • Satellite telephone service • Shared telephone service (only the portion of the shared services relating to the eligible use and location may receive discounts) • Wireless telephone service including cellular voice and excluding data and text messaging
#1	<i>Schools and Libraries (E-Rate) Program FCC Form 474 (SPI) User Guide</i> , at 11.	<p>Item (11) - Total (Undiscounted) Amount for Service per FRN. This item represents the total undiscounted monthly and one-time charges for all eligible services on the individual invoice or bill issued to the customer. This item represents the total price for eligible service before any eligible discount is applied. The total undiscounted amount may include all reasonable associated charges, such as federal and state taxes, that the customer incurs when they obtain services.</p>

Attachment C
SL2019LS004



Dillingham City School District

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2019LS004

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EXECUTIVE SUMMARY

August 27, 2020

Dr. Jason Johnson, Superintendent
Dillingham City School District
545 Seward St.
Dillingham, AK 99576

Dear Dr. Johnson:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Dillingham City School District (Beneficiary), Billed Entity Number (BEN) 145574, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination did not disclose any areas of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,



Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2018 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$791,251	\$791,251
Total	\$791,251	\$791,251

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

The committed total represents one FCC Form 471 application with one Funding Request Number (FRN). AAD selected the FRN 1899003647, which represents \$791,251 of the funds committed and disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2018 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a School District located in Dillingham, Alaska that serves over 470 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether the Beneficiary properly selected a service provider that provided eligible services and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected service providers. AAD examined the service provider contracts to determine whether they were properly executed.

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

Attachment D
SL2019BE046

Available For Public Use

*Fontana Unified School District
Audit ID: SL2019BE046
(BEN: 143719)*

*Performance audit for the Universal Service Schools and
Libraries Program Commitments and Disbursements
related to Funding Year 2018 as of October 9, 2019*

Prepared for: Universal Service Administrative Company

As of Date: October 6, 2020

KPMG LLP
1021 East Cary Street
Richmond, VA 23219

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EXECUTIVE SUMMARY

October 6, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to the Fontana Unified School District, Billed Entity Number (“BEN”) 143719, (“Fontana” or “Beneficiary”) for disbursements of \$5,721,491 and commitments of \$5,795,935, made from the federal Universal Service Schools and Libraries Program related to the twelve-month period ended June 30, 2019, as of October 9, 2019 (hereinafter “Funding Year 2018”). Our work was performed during the period from November 22, 2019 to October 6, 2020, and our results are as of October 6, 2020.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objective of our work was to evaluate the Beneficiary’s compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program (“E-rate Program”) set forth in 47 C.F.R. Part 54 of the Federal Communications Commission’s (“FCC”) Rules as well as other program requirements (collectively, the “Rules”) that determined the Beneficiary’s eligibility and resulted in commitments of \$5,795,935 and disbursements of \$5,721,491 made from the E-rate Program related to Funding Year 2018. Compliance with the Rules is the responsibility of the Beneficiary’s management. Our responsibility is to evaluate the Beneficiary’s compliance with the Rules based on our audit.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

As our report further describes, KPMG did not identify any findings as a result of the work performed.

This report is intended solely for the use of the Universal Service Administrative Company, the Beneficiary, and the FCC, and is not intended to be and should not be relied upon by anyone other than these specified parties. This report is not confidential and may be released by USAC to a requesting third party.

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 474	Service Provider Invoice Form
Fontana	Fontana Unified School District
FRN	Funding Request Number
Funding Year 2018	The twelve-month period from July 1, 2018 to June 30, 2019 during which E-rate Program support is provided (as of October 9, 2019)
MIBS	Managed Internal Broadband Services
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

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

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

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

Beginning in Funding Year 2015, the discount rate for all voice services was reduced by 20%, and was and shall be reduced further by an additional 20% every subsequent funding year until Funding Year 2019 when voice services will no longer be funded through the E-rate Program. The discount rate reduction for voice services in Funding Year 2018 is 80%. This reduction applies to all expenses incurred for providing telephone services and increasing circuit capacity for providing dedicated voice services.

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$5,795,935 and disbursements of \$5,721,491 made for Funding Year 2018.

Beneficiary Overview

The Fontana Unified School District (BEN# 143719) is a school district located in Fontana, California, a fast-growing community 50 miles east of Los Angeles, that serves over 39,000 students across 45 schools.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2018 by service type:

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$604,317	\$537,467
Voice Services	\$20,382	\$12,788
Internal Connections	\$5,171,236	\$5,171,236
Total	\$5,795,935	\$5,721,491

Source: USAC

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2018. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2018 as of October 9, 2019.

The committed total represents 2 FCC Form 471 applications with 49 FRNs. We selected 30 FRNs, which represent \$4,676,300 of the funds committed and \$4,606,988 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2018 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$5,795,935 and disbursements of \$5,721,491 made from the E-rate Program for Funding Year 2018. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2018 and disbursements received, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, physical inventory of equipment purchased and maintained, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for Funding Year 2018.

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

1. Planning and Assessment
2. Application Process
3. Competitive Bid Process
4. Calculation of the Discount Percentage
5. Invoicing Process
6. Site Visits

-
7. Reimbursement Process
 8. Record Keeping
 9. Final Risk Assessment

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary and received by the Beneficiary for Funding Year 2018. The procedures conducted during this performance audit include the following:

1. Planning and Assessment

In collaboration with USAC, we assessed Beneficiary criteria to perform audit planning activities, including sampling, site visit considerations and audit approach. Using an agreed upon sampling methodology, we selected 30 FRNs in scope for this audit.

2. Application Process

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

3. Competitive Bid Process

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

4. Calculation of the Discount Percentage

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

5. Invoicing Process

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

6. Site Visits

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

7. Reimbursement Process

For the FRNs audited, we obtained and examined invoices submitted for reimbursement for the services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, we reviewed invoices associated with the SPI forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the SPI forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate Program Eligible Services List.

8. Record Keeping

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

9. Final Risk Assessment

Based on the performance of the above audit procedures for the sampled FRNs, non-compliance was not detected during the audit. Thus KPMG concluded that further considerations of its effect on the FRNs excluded from the initial sample and an expansion of the scope of the audit was not warranted.

RESULTS

KPMG's performance audit procedures identified no findings.

Findings, Recommendations and Beneficiary Responses

KPMG's performance audit procedures identified no findings.

Conclusion

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 identified no findings relative to Funding Year 2018 commitments and disbursements made from the E-rate Program for the audit period.

**Attachment E
SL2017LR047**



Houston County School District

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR047

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EXECUTIVE SUMMARY

June 3, 2020

Dr. Mark Scott, Superintendent
Houston County School District
1100 Main Street
Perry, GA 31069

Dear Dr. Scott:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Houston County School District (Beneficiary), Billed Entity Number (BEN) 127444, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

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

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

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the

sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,



Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery
Finding #1: FCC Form 474 User Guide, at 4 (2016) – Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Students. Out of the 37 schools within the school district, the Service Provider over-invoiced SLP for services delivered to 20 schools that included students in the ineligible pre-kindergarten program.	\$48,003	\$48,003
Finding #2: 47 C.F.R. § 54.523 – Receipt of Free Equipment not Requested on the FCC Form 471 The Beneficiary informed AAD that it received six wireless access points, in addition to the eight requested in its FCC Form 471, from the Service Provider at no additional cost.	\$1,454	\$1,454
Total Net Monetary Effect	\$49,457	\$49,457

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. If there are other FRNs under the scope of the findings, there will be additional recoveries and/or commitment adjustments. USAC will request the Service Provider and Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC refers the applicant and service provider to our website for additional resources. Various links are listed below.

- <https://www.usac.org/e-rate/trainings/online-training/training-series-for-service-providers/>
- <https://www.usac.org/e-rate/trainings/online-training/training-series-for-applicants/>
- <https://www.usac.org/e-rate/applicant-process/before-you-begin/non-traditional-education-eligibility/eligibility-table-for-non-traditional-education/#GA>

USAC has subscribed the Beneficiary and Service Provider to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary and Service Provider to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1699069559	\$49,457

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	\$2,309,066	\$1,861,192
Internet Access	\$618,085	\$618,085
Voice	\$96,101	\$87,266
Total	\$3,023,252	\$2,566,543

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

The committed total represents four FCC Form 471 applications with 18 Funding Request Numbers (FRNs). AAD selected six FRNs,¹ which represent \$2,692,614 of the funds committed and \$2,306,600 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a school district located in Perry, Georgia that serves over 27,000 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also

¹ The FRNs included in the scope of this audit were: 1699069397, 1699069559, 1699121232, 1699132577, 1699132596 and 1699132666.

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

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

FINDING #1: FCC Form 474 User Guide, at 4 (2016) - Service Provider Over-Invoiced SLP for Services Delivered to Ineligible Students

CONDITION

AAD obtained and examined the FCC Form 474 Service Provider Invoice (SPI) forms and the corresponding service provider bills provided by the Beneficiary for FRN 1699069559 to determine whether the Schools and Libraries Program (SLP) was invoiced only for services delivered to eligible students. Through an examination of the documentation provided, AAD determined that the Service Provider, Howard Technology Solutions (Howard), invoiced SLP for amounts that included services delivered to ineligible students.

The Beneficiary is identified as a public school district and provides Pre-Kindergarten programs. As indicated in the *Eligibility Table for Non-Traditional Education*² on USAC's website, in the state of Georgia, pre-kindergarten services are not eligible for discounts and as such must be cost allocated, unless otherwise noted. AAD examined the FCC Form 471 to substantiate whether ineligible students were included in the Beneficiary's discount calculation. The FCC Form 471 discount calculation includes enrollment totals of only eligible students for each location.

However, out of the 37 schools within the school district, the Service Provider over-invoiced SLP for services delivered to 20 schools that included students in the pre-kindergarten program, as summarized below.

School	Number of Ineligible students	Number of eligible students	Total Number of Students	Percentage of Ineligible students
Bonaire Elementary School	44	769	813	5%
C. B. Watson Primary School	104	492	596	17%
Centerville Elementary School	44	636	680	6%
David A. Perdue Primary	117	626	743	16%
Eagle Springs Elementary	44	725	769	6%
Hilltop Elementary School	44	609	653	7%
Kings Chapel Elementary School	45	459	504	9%
Lake Joy Primary School	96	550	646	15%
Langston Road Elementary School	51	560	611	8%
Lindsey Elementary School	42	366	408	10%
Matthew Arthur Elementary School	52	653	705	7%
Miller Elementary School	44	539	583	8%
Morningside Elementary School	44	437	481	9%
Northside Elementary School	44	421	465	9%
Parkwood Elementary School	44	644	688	6%
Quail Run Elementary School	60	668	728	8%
Russell Elementary School	44	657	701	6%
Shirley Hills Elementary School	63	513	576	11%
Tucker Elementary School	45	425	470	10%
Westside Elementary School	45	517	562	8%
Total	1,116	11,266	12,382	

² See USAC's website at <https://www.usac.org/e-rate/applicant-process/before-you-begin/non-traditional-education-eligibility/eligibility-table-for-non-traditional-education/>.

When providing services or equipment, the service provider must apply an allocation to the total cost and remove the ineligible portion from the undiscounted cost for service prior to invoicing SLP.³ The service provider did not cost allocate the ineligible portion of the category two equipment delivered for FRN 1699069559; therefore, over-invoicing SLP by a total of \$48,003. Thus, AAD concludes that the Schools and Libraries Program (SLP) was not invoiced only for services delivered to eligible students.

CAUSE

The Service Provider did not demonstrate sufficient knowledge of the Rules governing the invoicing process. The Service provider did not perform adequate research and did not seek appropriate assistance, including the FCC Form 474 (SPI) User Guide and outreach available on USAC’s website, to seek reimbursement on its FCC Form 474 for only eligible services delivered to eligible students.

EFFECT

The monetary effect of this finding is \$48,003. This amount represents the difference between the discounted amount invoiced to SLP by the Service Provider and the discounted amount of services delivered to eligible students. See calculation below.

Pre-discounted Cost per SPI (A)	Beneficiary’s Discount Rate (B)	Discounted Cost per SPI (C = A * B)	Total Eligible Pre-Discounted Costs per Bills (D)	Discounted Eligible Costs per Bills (E = D * B)	Amount Due to SLP (Discounted Cost per SPI less Discounted Eligible Costs per Bills) (F = C – E)
\$1,919,882	80%	\$1,535,906	\$1,859,879	\$1,487,903	\$48,003

RECOMMENDATION

AAD recommends that USAC management seek recovery of \$48,003. The Service Provider must ensure it obtains sufficient knowledge of the Rules and implement controls and procedures to ensure that it seeks reimbursement only for eligible services delivered to eligible students.

BENEFICIARY RESPONSE

When measuring the allocation of services to eligible and ineligible populations, the district accounts for any ineligible population access and utilization of services. We consider this to be a reasonable and accurate method to measure utilization and ineligibility.

Because this wireless infrastructure provides access to the district’s network and digital instructional content, an allocation should be based on actual access and utilization of the resource. Students cannot access or utilize the resource without an end user device. For all sites in question, the maximum wireless device count for use

³ See USAC’s website at <https://www.usac.org/e-rate/applicant-process/before-you-begin/eligible-services-overview/cost-allocations-for-services/>.

by a PK [(Pre-K)] classroom is (3). As a result, there is very limited utilization of the wireless network by this population.

Below is a table providing the total wireless device count, per facility, for those sites that include a Pre-K population. Based upon this utilization, we believe a more representative and reasonable allocation for Pre-K on FRN 1699069559 would be \$27,076, pre-discount.

Site	ineligStudent	eligStudent	tllStudent	Device Count	PK Device	PK %	frn 1699069559	pkAllocate
Bonaire Elementary School	14	769	813	373	6	1.6086%	55,289	889
C. B. Watson Primary School	104	492	596	542	6	1.1070%	52,186	578
Centerville Elementary School	44	636	680	382	6	1.5707%	49,987	785
David A. Perdue Primary	117	626	743	204	12	5.8824%	53,172	3,128
Eagle Springs Elementary	44	725	769	591	6	1.0152%	51,728	525
Hilltop Elementary School	44	609	653	462	9	1.9481%	56,464	2,000
Kings Chapel Elementary School	45	459	504	151	6	3.9735%	48,143	1,913
Lake Joy Primary School	96	550	646	124	12	9.6774%	56,536	5,471
Langston Road Elementary School	51	560	611	366	6	1.6393%	52,967	868

Lindsey Elementary School	42	366	408	188	6	3.1915%	49,176	1,569
Matthew Arthur Elementary School	52	653	705	321	6	1.8692%	56,629	1,058
Miller Elementary School	44	539	583	292	6	2.0548%	50,631	1,040
Morningside Elementary School	44	437	481	338	6	1.7751%	45,456	807
Northside Elementary School	44	421	465	499	6	1.2024%	48,017	577
Parkwood Elementary School	44	644	688	721	9	1.2483%	40,138	501
Quail Run Elementary School	60	668	728	167	9	5.3892%	61,861	3,334
Russell Elementary School	44	657	701	685	9	1.3139%	55,384	728
Shirley Hills Elementary School	63	513	576	329	6	1.8237%	47,811	872
Tucker Elementary School	45	425	470	379	6	1.5831%	43,309	686
Westside Elementary School	45	517	562	489	6	1.2270%	52,601	645
Total	1,086	11,266	12,382	7,603	144	1.8940%	1,027,483	27,076

An appropriate allocation for PK on FRN 1699069559 would be \$27,076 of the pre-discount cost.

Pre-Discounted Cost per SPI	Beneficiary's Discount Rate	Discounted Cost per SPI	Total Eligible Pre-Discounted Cost per Bills	Discounted Eligible Cost per Bills	Amount Due to SLP (Discounted Cost per SPI less Discounted Eligible Costs per Bills)
(A)	(B)	(C)	(D)	(E = D * B)	(F = C - E)
\$1,027,483	80%	\$ 821,987	\$1,000,408	\$ 800,326	\$ 21,661

The adjusted monetary effect is \$21,660.51. This amount represents the difference between the discounted amount invoiced to SLP by the Service Provider and the discounted amount of services delivered to eligible students.

SERVICE PROVIDER RESPONSE

Howard Technology Solutions maintains the requested equipment was provided and installed as specified in the documentation provided in the RFP. The suggested layout, provided by the beneficiary and in coordination with the manufacturer, was designed in a manner as to not provide a wireless access point for each classroom. Classrooms housing eligible students could be provided service by equipment not necessarily located directly in that room. We had no documentation, at the time of installation and invoicing, indicating any areas were ineligible to receive the certified eligible equipment.

AAD RESPONSE

The Beneficiary stated in its response that the “allocation should be based on actual access and utilization of the resource.” Although AAD acknowledges that this may be a reasonable approach to allocating the cost of eligible and ineligible services, the Beneficiary and Service Provider did not provide adequate documentation to substantiate the actual access and utilization. The Beneficiary provided AAD with the total wireless device count for each site that included a Pre-K population, as well as underlying reports to substantiate the counts. However, AAD noted discrepancies between the wireless device count provided by the Beneficiary, as noted in its response, and the underlying reports. In addition, although the Beneficiary states “the maximum wireless device count for use by a PK classroom is (3),” the Beneficiary’s documentation only substantiated the actual device count per site and not per classroom. Thus, AAD could not determine the actual devices available for access and utilization by the Pre-K students.

AAD is required to perform its audits in accordance with Generally Accepted Government Auditing Standards,⁴ which require AAD to obtain sufficient, appropriate evidence to support its findings and conclusions.⁵ Because sufficient documentation was not provided demonstrating the actual count of devices accessible for

⁴ 47 C.F.R. § 54.702(n) (2015).

⁵ See U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, para. 6.56 (Rev. Dec. 2011) (“Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.”).

Pre-K classrooms and because the underlying documentation for the device counts did not reconcile to the total count of devices provided in the Beneficiary's response, AAD is unable to conclude on the accuracy of the device counts provided by the Beneficiary. Therefore, AAD's position on this finding remains unchanged.

Finding #2: 47 C.F.R. § 54.523 – Receipt of Free Equipment not Requested on the FCC Form 471

CONDITION

AAD obtained and examined the Beneficiary's FCC Form 471, FCC Form 474, fixed asset listing (FAL) and corresponding service provider bills provided by the Beneficiary to determine whether the Schools and Libraries Program (SLP) was invoiced only for approved, eligible equipment received for FRN 1699069559.

While conducting a site visit of Houston County School District (HCSO) for the internal connections equipment requested on the FCC Form 471 for FRN 1699069559, the system network engineer informed AAD during a site visit at Northside High School that HCSO received six additional wireless access points (WAPs) from the Service Provider at no additional cost. The system network engineer stated that the Service Provider performed a walkthrough of the school and provided the Beneficiary with a price and list of necessary equipment; however, the equipment was not enough to provide 55-decibel milliwatts (DBM) signal strength to all corners of the campus.⁶ The Beneficiary informed AAD that the Service Provider reassessed the issue and delivered six additional WAPs at no extra cost to Northside High School.

AAD determined that the six additional WAPs constituted rebates for products purchased with universal service discounts as the Service Provider did not deduct the value of the free equipment from its pre-discounted costs prior to invoicing SLP. The Beneficiary received a total of 14 WAPs for a total of \$4,384, of which only eight WAPs were requested on the Beneficiary's FCC Form 471 and paid for by the Beneficiary. The individual unit price of the WAPs total \$303 (\$4,248 / 14 WAPs). The Service Provider should have deducted \$1,818 (6 additional WAPs x \$303 unit cost per WAP) from the pre-discounted costs invoiced to SLP for FRN 1699069559. Thus, the Service Provider over-invoiced SLP for \$1,454 (\$1,818 * 80 percent (the Beneficiary's discount rate)) for the value of free equipment provided to the Beneficiary. AAD concludes that the Service Provider provided free services to the Beneficiary and did not invoice SLP only for approved, eligible equipment.

CAUSE

The Service Provider did not demonstrate sufficient knowledge of the Rules governing free equipment and services. The Service Provider did not perform adequate research and did not seek appropriate assistance, to cost allocate the value of equipment provided at no cost and to reduce the amount requested for E-rate reimbursement.

EFFECT

The monetary effect of this finding is \$1,454. This amount represents the value of free equipment that was provided by the Service Provider and not requested on the Beneficiary's FCC Form 471.

⁶ In response to an inquiry made May 1, 2018, Houston County School District updated the Audit Inquiries Record (AIR) with its response on May 3, 2018.

RECOMMENDATION

AAD recommends that USAC management seek recovery of \$1,454. The Service Provider must implement adequate controls and procedures to ensure the value of equipment provided free of charge to the Beneficiary is deducted from E-rate reimbursement requests.

BENEFICIARY RESPONSE

The applicant disagrees with AAD's conclusion. The service provider fulfilled its contractual obligation based on the published RFP. All prospective vendors were required to propose a solution that provided adequate wireless coverage for each facility, including proposing the models for access points that would satisfy all coverage and connectivity requirements.

The project encompassed multiple locations, and, at the completion of installation at each facility, the service provider and district technical staff performed walk-thru's to evaluate coverage in accordance with the requirements. Northside High School was the only facility where a deficiency was detected.

The vendor's proposed solution also included (3) different access point models. The vendor's bid response included the determination that (67) access points with a total of (312) radios would be required.

The walk-thru determined that an additional (6) access points with a total of (12) radios were required to satisfy coverage requirements. The result being an initial radio estimate that was too low by around 3.7% at that facility. In the context of an implementation with (4,720) total radios across (40) instructional facilities, this was an underestimation of around .2%.

AAD has suggested that this action constitutes a "rebate", has assigned a monetary benefit, and thus an applicable recovery.

However, the applicant considers the Service Provider's remedy as nothing more than the vendor fulfilling its contractual requirement. The Service Provider in effect incurred a financial penalty by having to exceed its original projection in order to meet coverage requirements for the instructional facility.

Both the Applicant and Service Provider have, at all times, acted in good faith, with the goal of improving the wireless connectivity at the district's instructional facilities while adhering to program rules. No actions by either party constitute waste, fraud, or abuse. And no rebate was provided to the applicant.

SERVICE PROVIDER RESPONSE

The beneficiary requested a specific manufacturer or equivalent with a given layout to give them a desired signal strength. Howard Technology Solutions responded to the [FCC Form] 470 and RFP as per the guidelines in the RFP document with requested manufacturer parts and placement on the design provided by Houston County Schools. Howard Technology Solutions performed a post install wireless survey of each location to gather signal strength readings and manipulated device locations accordingly to meet these requirements with the specified equipment, typically moving closer to one wall or another. Howard Technology Solutions did not order or provide additional equipment (the 6 devices in question) to gain additional coverage. Any additional equipment provided was a result of direct communication with the customer and manufacturer, Xirrus, as the school had worked directly with Xirrus in designing the initial layout for the desired signal strength results.

AAD RESPONSE

AAD does not debate, nor does AAD offer an opinion on whether “[t]he service provider fulfilled its contractual obligation based on the published RFP,” as stated in the Beneficiary’s response. However, in its response, the Beneficiary acknowledges that “...an additional (6) access points with a total of (12) radios were required to satisfy coverage requirements.” Although the Beneficiary believes the additional equipment may have fulfilled a contractual obligation, only eight WAPs were requested on the Beneficiary’s FCC Form 471, billed by the service provider, and paid for by the Beneficiary. The unit cost per the service provider’s bill was \$548, which agrees to the unit price in the Beneficiary’s FCC Form 471. Thus, SLP only committed support for eight WAPs. As the six additional WAPs were not committed to in a Funding Commitment Decision Letter issued by SLP, the six additional WAPs constitute a free service unless the Beneficiary paid for this equipment separately.

In addition, in the Service Provider’s response to the Beneficiary’s *Request for Proposals for Wireless Upgrade (RFP Number 05-031)*, the Service Provider indicated that “[i]f additional equipment is required to meet signal requirement, additional equipment and labor cost will be the responsibility of Houston Country BOE.” Therefore, the Service Provider’s response was clear that any additional equipment to meet signal requirements would be the responsibility of the Beneficiary. In accordance with the rules, “...an eligible school... may not directly or indirectly solicit or accept any gift, gratuity, favor, entertainment, loan, or any other thing of value from a service provider participating in or seeking to participate in the schools and libraries universal service program.” Because the service provider did not deduct the value of the free equipment from its pre-discounted cost of equipment invoiced to SLP, the Service Provider did not comply with the Rules governing gifts and AAD’s position on this finding remains unchanged.⁷

⁷ 47 C.F.R. § 54.503(d)(1)

CRITERIA

Finding	Criteria	Description
#1	<i>Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide at 4 (Apr. 2017). (FCC Form 474 User Guide).</i>	<p>Service providers that have provided discounted eligible services and discounted bills to eligible schools, school districts, libraries, library consortia, and consortia of multiple entities must file the FCC Form 474 to seek reimbursement for the cost of the discounts...</p> <p>Item (11) – Total (Undiscounted) Amount for Service per FRN. This item represents the total undiscounted monthly and one-time charges for all eligible services on the individual invoice or bill issued to the customer. This item represents the total price for eligible services before any eligible discount is applied. The total undiscounted amount may include all reasonable associated charges, such as federal and state taxes, that the customer incurs when they obtain services.</p>
#1	47 C.F.R. § 54.702(n).	<p>The Administrator shall account for the financial transactions of the Universal Service Fund in accordance with generally accepted accounting principles for federal agencies and maintain the accounts of the Universal Service Fund in accordance with the United States Government Standard General Ledger. When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards. In administering the Universal Service Fund, the Administrator shall also comply with all relevant and applicable federal financial management and reporting statutes.</p>
#2	47 C.F.R. § 54.523 (2016).	<p>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.</p>
#2	47 C.F.R. § 54.503(d)(1) (2016).	<p>Subject to paragraphs (d)(3) and (4) of this section, an eligible school, library, or consortium that includes an eligible school or library may not directly or indirectly solicit or accept any gift, gratuity, favor, entertainment, loan, or any other thing of value from a service provider participating in or seeking to participate in the schools and libraries universal service program. No such service provider shall offer or provide any such gift, gratuity, favor, entertainment, loan, or other thing of value except as otherwise provided herein. Modest refreshments not offered as part of a meal, items with little intrinsic value intended solely for presentation, and items worth \$20 or less, including meals, may be offered or provided, and accepted by any individuals or entities subject to this rule, if the value of these items received by any individual does not exceed \$50 from any one service provider per funding year. The \$50 amount for any service provider</p>

Finding	Criteria	Description
		shall be calculated as the aggregate value of all gifts provided during a funding year by the individuals specified in paragraph (d)(2)(ii) of this section.

Attachment F
SL2019BE021

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

JEFFERSON CITY SCHOOL DISTRICT

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

USAC AUDIT No. SL2019BE021



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

Executive Summary

October 2, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Jefferson City School District (Beneficiary), Billed Entity Number (BEN) 137330, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	Recovery Action	Downward Commitment Adjustment
Finding No. 1, 47 C.F.R. §54.502(b) (2016) – Beneficiary Inaccurately Calculated Category Two (C2) Budgets. The Beneficiary used inaccurate enrollment numbers in calculating its Funding Year (FY) 2017 C2 budget.	\$5,630	\$5,630	\$5,630
Finding No. 2, 47 C.F.R. §54.505(b)(1) (2016) – Beneficiary Inaccurately Calculated Its Discount Rate. The Beneficiary used inaccurate enrollment numbers in calculating its discount rate.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$5,630</u>	<u>\$5,630</u>	<u>\$5,630</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC also refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/wp-content/uploads/e-rate/documents/Tools/FY2020-C2-Budget-Tool-Instructions.pdf>
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2020/01-21-2020-Category-2-Budget-Webinar-Slides.pdf>
- <https://www.usac.org/e-rate/applicant-process/applying-for-discounts/calculating-discounts/>
- <https://www.usac.org/e-rate/learn/faqs/calculating-discount-rates/>

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount	Commitment Adjustment Amount
1799023401	\$5,630	\$5,630

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for FY 2017. The Beneficiary is a public school district located in Jefferson City, Missouri that serves approximately 9,000 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for FY 2017 as of October 10, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$232,593	\$232,593
Data Transmission and/or Internet Access	\$129,600	\$129,600
Voice	\$32,928	\$28,272
Total	<u>\$395,121</u>	<u>\$390,465</u>

The “amount committed” total represents three FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2017 that resulted in 18 Funding Request Numbers (FRNs). We selected a sample of three of the FRNs, which represent \$169,945 of the funds committed and \$169,945 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, direct observation, and inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) primarily considered the price of the eligible services and goods in selecting the service provider. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 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 and service provider submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary and service provider 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. §54.502(b) (2016) – Beneficiary Inaccurately Calculated Category Two (C2) Budgets

Condition

The Beneficiary used inaccurate enrollment numbers in calculating its FY 2017 C2 budget. We tested all FY 2017 FRNs related to C2 funding, which included internal connections services for 14 schools. The Beneficiary provided National School Lunch Program (NSLP) data for FY 2017 to support the enrollment numbers reported for each of these schools; however, we noted that the enrollment numbers included in the supporting documentation did not agree with the numbers that the Beneficiary reported for 13 of the 14 schools. The Beneficiary received \$153.4695 in C2 funding per student in FY 2017. As a result of the erroneous enrollment numbers, the Beneficiary overstated its C2 budget on eight FRNs as shown below.

FRN	Enrollment Reported in FCC Form 471	C2 Budget Using FCC Form 471 (Pre-Discount)	Supported Enrollment	Recalculated C2 Budget (Pre-Discount)	Difference
1799020549	386	\$59,239	344	\$52,794	\$6,445
1799020438	283	\$43,432	267	\$40,976	\$2,456
1799020450	388	\$59,546	387	\$59,393	\$153
1799020477	270	\$41,437	288	\$44,199	(\$2,762)
1799020515	961	\$147,484	1,040	\$159,608	(\$12,124)
1799020418	427	\$65,531	415	\$63,690	\$1,841
1799020543	316	\$48,496	305	\$46,808	\$1,688
1799020493	452	\$69,368	446	\$68,447	\$921
1799020540	579	\$88,859	558	\$85,636	\$3,223
1799020524	387	\$59,393	390	\$59,853	(\$460)
1799020462	368	\$56,477	368	\$56,477	\$0
1799020531	394	\$60,467	423	\$64,918	(\$4,451)
1799020503	913	\$140,118	976	\$149,786	(\$9,668)
1799023401	<u>209</u>	<u>\$32,075</u>	<u>100</u>	<u>\$15,347</u>	<u>\$16,728</u>
Total	<u>6,333</u>	<u>\$971,922</u>	<u>6,307</u>	<u>\$967,932</u>	<u>\$3,990</u>

However, per review of amounts committed by SLP for C2 equipment and services in FYs 2015, 2016, and 2017 and the Beneficiary's corresponding FCC Forms 471, there was only one location identified in which the Beneficiary's cumulative committed C2 amount exceeded the location's recalculated budget. We reviewed the pre-discount spending for each of these FRNs and noted that the Beneficiary's pre-discount spending on FRN 1799023401 was \$22,385 for Southwest Early Childhood Center (SWECC)¹, exceeding its \$15,347 recalculated budget by \$7,038. The Beneficiary's pre-discount spending did not exceed its recalculated budgets on any of the other FRNs.

Cause

The Beneficiary did not have sufficient internal controls in place to ensure that the funding data it submitted to USAC was based on accurate and properly documented information. The Beneficiary attributed the discrepancies in the enrollment numbers to administrative error.

¹ The Beneficiary's FCC Form 471 erroneously identifies the recipient for this equipment as Jefferson City High School. The Beneficiary was unable to link FRN 1799023401 to SWECC (which was a new entity) when it filed its FCC Form 471. Based on instructions from USAC, it allocated this FRN to Jefferson City High School, and included a note in the FCC Form 471 narrative explaining the linking issue and identifying SWECC as the proper recipient.

Effect

The monetary effect of this finding is \$5,630 (\$7,038 multiplied by 80 percent discount rate). This is the amount over-committed and over-invoiced for FRN 1799023401.

Recommendation

We recommend that:

1. USAC seek recovery of the over-invoiced amount and record a downward commitment adjustment for the FRN identified above.
2. The Beneficiary implement controls to ensure that it provides USAC with accurate and properly supported enrollment data.

Beneficiary Response

The error for SWECC, as a new entity, was thought to be cleared up by USAC. Knowing the result of the error in this finding, better research and accurate data enrollment for new entities will be implemented in future filings.

Finding No. 2, 47 C.F.R. §54.505(b)(1) (2016) - Beneficiary Inaccurately Calculated Its Discount Rate**Condition**

In FY 2017, the Beneficiary operated 16 schools, 4 of which participated in the Community Eligibility Provision (CEP). As part of our testing, we requested support for the enrollment numbers reported for each school. We noted that the documentation that the Beneficiary provided did not support the eligibility rates that the Beneficiary reported on its FCC Form 471 for FY 2017. Specifically, the Beneficiary reported CEP eligibility rates for each of the four schools as 100 percent and its district-wide NSLP eligibility rate as 58 percent. However, based on the documentation that the Beneficiary provided, the CEP eligibility rates for three of the schools should have been 88.89, 88.66 and 90.49 percent. We used these percentage rates to recalculate the number of eligible students for each of the three schools.

Further, the Beneficiary did not include students from all of the entities in its school district when performing its discount calculation. Specifically, the Beneficiary informed us that it was unable to include one school in its FCC Form 471 as a result of linking complications related to a profile lock. The Beneficiary informed us that it contacted USAC regarding this issue, and USAC instructed the Beneficiary to provide the correct information in the narrative portion of the FCC Form 471. The Beneficiary attempted to correct the linking issue; however, it was unable to do so.

These discrepancies caused a variance in the eligibility rate. We calculated a supported NSLP eligibility rate of 56.87 percent. The variance, however, did not impact the Beneficiary's discount rate.

The following table provides a summary of the differences between the data reported on the Beneficiary’s FCC Form 471 and the data reported in the supporting documentation.

Data Comparison	FCC Form 471 Data	Corrected Data	Results
Eligible Students	5,371	5,009	The corrected enrollment and NSLP data did not change the Beneficiary’s discount rate for FY 2017.
Enrolled Students	9,281	8,808	
Eligibility Rate	58%	56.87%	
Category 1 Discount Rate*	80%	80%	
Voice (20% Reduction)*	60%	60%	
C2 Discount Rate*	80%	80%	

*Per USAC’s *Approved Discount Rate Table for FY17 Services*.

Cause

The Beneficiary did not have sufficient internal controls in place to ensure that the enrollment numbers used for the eligibility rate were accurate and properly documented. The Beneficiary attributed the discrepancies in these numbers to administrative error and linking issues entering FCC Form 471 data.

Effect

The Beneficiary did not use accurate enrollment numbers and did not include all relevant entities in its discount calculation within its FCC Form 471. We recalculated the Beneficiary’s discount rates using the corrected data and determined that the issue did not result in a monetary effect, as it did not impact the Beneficiary’s discount rate for services requested during FY 2017. However, using an incorrect methodology could impact the Beneficiary’s discount rate and funding request(s) in future funding years.

Recommendation

We recommend that the Beneficiary implement procedures to ensure that it enters data into its FCC Form 471 in a consistent and precise manner, to maintain data integrity and ensure that it properly calculates discount rates.

Beneficiary Response

In reviewing Finding No. 2, it is noted that the procedures in place were insufficient. We will use the recommendation and criteria listed to further improve data collection for proper discount calculation in order to minimize errors that could potentially cause future funding loss or denial.

Criteria

Finding	Criteria	Description
1	47 C.F.R. §54.502(b) (2016)	<p><i>(b) Funding years 2015–2019. Libraries, schools, or school districts with schools that receive funding for category two services in any of the funding years between 2015 and 2019 shall be eligible for support for category two services pursuant to paragraphs (b)(1) through (6) of this section.</i></p> <p><i>(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).</i></p> <p><i>(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.</i></p> <p><i>(3) Library budget. Each eligible library shall be eligible for support for category two services, up to a pre-discount price of \$2.30 per square foot over a five-year funding cycle. Libraries shall provide the total area for all floors, in square feet, of each library outlet separately, including all areas enclosed by the outer walls of the library outlet and occupied by the library, including those areas off-limits to the public.</i></p>

Finding	Criteria	Description
		<p><i>(4) Funding floor. Each eligible school and library will be eligible for support for category two services up to at least a pre-discount price of \$9,200 over five funding years.</i></p> <p><i>(5) Requests. Applicants shall request support for category two services for each school or library based on the number of students per school building or square footage per library building. Category two funding for a school or library may not be used for another school or library. If an applicant requests less than the maximum budget available for a school or library, the applicant may request the remaining balance in a school's or library's category two budget in subsequent funding years of a five year cycle. The costs for category two services shared by multiple eligible entities shall be divided reasonably between each of the entities for which support is sought in that funding year.</i></p> <p><i>(6) Non-instructional buildings. Support is not available for category two services provided to or within non-instructional school buildings or separate library administrative buildings unless those category two services are essential for the effective transport of information to or within one or more instructional buildings of a school or non-administrative library buildings, or the Commission has found that the use of those services meets the definition of educational purpose, as defined in §54.500. When applying for category two support for eligible services to a non-instructional school building or library administrative building, the applicant shall allocate the cost of providing services to one or more of the eligible school or library buildings that benefit from those services being provided.</i></p>
2	47 C.F.R. §54.505(b)(1) (2016)	<p><i>(1) 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</i></p>

Finding	Criteria	Description
		<i>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.</i>

COTTON & COMPANY LLP



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

Attachment G
SL2018LR003

Available For Public Use

Jewish Institute of Queens

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2018LR003

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Available for Public Use

EXECUTIVE SUMMARY

February 17, 2020

Rabbi Zalman Zvulonov, Executive Director
Jewish Institute of Queens
60-05 Woodhaven Blvd
Elmhurst, NY 11373

Dear Rabbi Zvulonov:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Jewish Institute of Queens (Beneficiary), Billed Entity Number (BEN) 232617, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

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

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

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and taken responsibility for the

sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,



Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

 Catriona Ayer, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
<p>Finding #1: Ysleta Order - The Beneficiary Did Not Demonstrate it Selected the Most Cost-Effective Service Offering. The Beneficiary did not select the most cost-effective service offering.</p>	\$140,400	\$140,400	\$140,400
<p>Finding #2: 47 C.F.R. § 54.523 – Insufficient Documentation to Demonstrate that the Beneficiary Paid its Non-Discounted Share. The Beneficiary did not pay its non-discounted share of costs for services received.</p>	\$10,440 ¹	\$10,440	\$10,440
<p>Finding #3: 47 C.F.R. § 54.511(a) - Failure to Comply with Competitive Bidding Requirements - Price Was Not the Primary Factor. The Beneficiary did not consider price as the primary factor during the service provider selection process.</p>	\$5,151	\$4,976	\$5,151
Total Net Monetary Effect	\$155,991	\$155,816	\$155,991

¹ See the updated recommendation to USAC management in the AAD Response section of Finding #2 on page 13-14.

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>
- <https://www.usac.org/video/sl/10-comp-bidding/index.html>
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount	Commitment Adjustment Amount
1699127306	\$70,200	\$70,200
1699127345	\$70,200	\$70,200
1699127315	\$10,440	\$10,440
1699127363	\$4,976	\$5,151
Total	\$155,816	\$155,991

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$279,720	\$160,920
Voice	\$56,409	\$54,642
Total	\$336,129	\$215,562²

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 twelve Funding Request Numbers (FRNs). AAD selected seven of the twelve FRNs³, which represent \$303,975 of the funds committed and \$183,408 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 private school located in Elmhurst, New York that serves over 560 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

² Subsequent to the date of the commencement of the audit, additional funds were disbursed to the beneficiary for the internet access and voice services. As of the date of this report, the total amount disbursed is \$334,362.

³ The FRNs included in the scope of this audit were: 1699127263, 1699127270, 1699127306, 1699127315, 1699127339, 1699127345, and 1699127363.

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

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. AAD evaluated the services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

FINDING #1: *Ysleta Order* - The Beneficiary Did Not Demonstrate it Selected the Most Cost-Effective Service Offering

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary carefully considered all options and selected the most cost-effective service offering using price of the eligible services as the primary factor for the Internet access services for FRNs 1699127306 and 1699127345. The Beneficiary received only one bid that was submitted by Gladesmore Telecom for both FRNs. AAD determined through examination of the documentation and inquiries made with the Beneficiary, that the Beneficiary did not select the most cost-effective service offering.

AAD examined the service provider's eligible costs listed in the bids for FRNs 1699127306 and 1699127345 and compared these costs to the average costs paid by applicants receiving SLP funding for a similar service type of Ethernet function and upload speeds of 50 Mbps in the state of New York⁴. AAD compared the pre-discounted costs of \$78,000 for Ethernet services proposed in the service provider's bids to the average pre-discounted costs of Ethernet services that use both the fiber and copper function; and to the average pre-discounted costs of Ethernet services using only the copper function. AAD determined that the service provider's pre-discounted costs listed in the bids is more than three times the average cost for similar services in the state of New York, as summarized below:

FRN	Type of Service	Pre-Discounted Cost Offered by Service Provider	Type of Ethernet	Number of Service Providers ⁵	Average Pre-Discounted Cost in NY	Difference Noted
1699127306, 1699127345	Ethernet	\$ 78,000	Copper and Fiber	36	\$ 25,194	\$ 52,806
			Copper Only	12	\$ 20,600	\$ 57,399

In addition, AAD examined applicants receiving SLP funding for Internet access services that shared the same area zip code, 11373, as the Beneficiary during Funding Year 2016⁶. AAD determined that the service provider's pre-discounted costs listed in the bids is more than three times the pre-discounted monthly costs of three schools in the same zip code, as summarized below:

⁴ AAD utilized the 471_Detail_Report_Current_NY_FundingYear2016 as of January 31, 2018 to examine applicants receiving Internet access services in the state of New York during Funding Year 2016.

⁵ This column represents the number of service providers that provided similar service type and upload speeds to other applicants during Funding Year 2016 in New York. These amounts include Gladesmore Telecom.

⁶ AAD utilized the 471_Detail_Report_Current_NY_FundingYear2016 as of January 31, 2018 to examine applicants receiving Internet access services in the state of New York during Funding Year 2016.

BEN Name	Jewish Institute of Queens	St. Bartholomew	Central Queen Academy	Cathedral Preparatory
BEN Number	232617	12360	16071445	12368
FRN(s)	1699127306, 1699127345	1699079409	1699083986	1699115735
Service Provider	Gladesmore	Knight Nets	Verizon	Autoexec
Annual Cost	\$ 78,000	\$ 6,780	\$ 3,960	\$ 15,600
Monthly Cost	\$ 6,500	\$ 565	\$ 330	\$ 1,300
Type of Service	Ethernet	Other	Ethernet	Ethernet
Material	Copper	Other	Fiber	Fiber
Speed (Mbps)	50	50	75	300

The *Ysleta Order* states that, “[e]ven if an applicant receives only one bid in response to an FCC Form 470 and/or RFP, it is not exempt from our [FCC] requirement that applicants select cost-effective services... [and] there may be situations, however, where the price of services is so exorbitant that it cannot, on its face, be cost-effective.”⁷ Therefore, given the examples outlined above, AAD concludes that the Beneficiary did not select the most cost-effective service offering.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the competitive bidding process and selecting the most cost-effective service offering.

EFFECT

The monetary effect of this finding is \$140,400. This amount represents the total amount committed by SLP for FRNs 1699127306 and 1699127345.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$140,400. This is the total amount of funds disbursed by SLP for FRNs 1699127306 and 1699127345. In addition, AAD recommends that USAC management issue a downward commitment adjustment to reduce the remaining committed funds to \$0 for FRN 1699127345. AAD also recommends that the Beneficiary implement controls and procedures to carefully consider the most cost-effective service offering, as required by the Rules; and the Beneficiary should familiarize itself with the Rules governing the competitive bidding and selecting the most cost-effective service offering.

⁷ *Request for Review of the Decision of the Universal Service Administrator by Ysleta Independent School District, et al.*, CC Docket No. 02-6, Order, 18 FCC Rcd. 26407, 26434, para. 54 (2003) (*Ysleta Order*).

BENEFICIARY RESPONSE

The auditor's examples as stated above represent the systemic unfair comparisons between the cited examples and the applicant.

1. BEN 12360 & BEN 12368 have student populations that are 25% the size of the applicant and are single site entities.
2. BEN 12360 has cable broadband service that is not a dedicated service whose market price is typically 1/10 to 1/5 the cost of Dedicated Internet Access Broadband Service.
3. BEN 16071445 has no connecting Pt to Pt services between its entities and uses shared copper service whose market price is typically 1/10 to 1/5 the cost of Dedicated Internet Access Broadband Service
4. The only true alleged Fiber Optic Ben 12368 uses a vendor which is a reseller and therefore it is not possible to compare the service it provides to the applicant. In addition, nowhere in the form 471 **161050698** is the service being offered identified as **Dedicated Internet Access** service and would be no different than the other two comparison examples. In addition, this vendor is currently under investigation by the FCC for failing to provide services stated and therefore all representations are ludicrous and invalid for comparisons.

The applicant asserts that it is a two site entity with a student population that exceeds 563 students and provides a dual curriculum education with Secular and Judaic curriculums that requires double the amount of staff of all the other entities cited in the comparison and requires a robust DIA fiber circuit to adequately service this entity. It also asserts that its service were **Dedicated Internet Access a true Fiber Optic service**. The contracts were for a 12 month contract basis that is more expensive that typical 36 month contracts of DIA service.

In summary, the auditor's faulty comparisons were evidence that they lacked the technical knowledge to compare the cost effectiveness of the service by systematically comparing radically different service platforms that easily account for price differentials. The applicant stands by its position that the required services were within market place parameters given the type of service, geographic location and length of contract for its main campus and its annex.

AAD RESPONSE

In its response, the Beneficiary states that it "asserts that it [Jewish Institute of Queens] is a two site entity with a student population that exceeds 563 students and provides a dual curriculum education with Secular and Judaic curriculums that requires double the amount of staff of all the other entities cited in the comparison and requires a robust DIA [Dedicated Internet Access] fiber circuit to adequately service this entity." The Beneficiary also "asserts that its service [was] **Dedicated Internet Access, which is a true Fiber Optic service**" and that "[t]he contracts were for a 12 month contract basis that is more expensive [than] typical 36 month contracts of DIA service." AAD acknowledges that the Beneficiary has two separate locations and that it has a bigger student population than the other entities used in the comparison. However, the monthly cost noted for each entity represents the monthly unit cost per location including the \$6,500 monthly unit cost that was noted in the second table above for the Beneficiary. The \$6,500 amount used does not represent the total monthly cost for the Beneficiary's two locations, but rather the unit cost. The Beneficiary's \$6,500 monthly rate was more than three times the pre-discounted monthly costs of the three schools mentioned in the comparison.

The Beneficiary also states, "...the auditor's faulty comparisons were evidence that they lacked the technical knowledge to compare the cost effectiveness of the service by systematically comparing radically different service platforms that easily account for price differentials." AAD disagrees with the Beneficiary's assertion. USAC is required to conduct audits in accordance with GAGAS⁸, which requires AAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.⁹ AAD conducted the following activities in its audit approach to test the Beneficiary's competitive bidding process:

Example #1 – On June 21, 2018, AAD inquired with the Beneficiary to request documentation demonstrating how it determined that the Ethernet services were cost effective. At the time, the Beneficiary informed AAD that "simple cable service and Ethernet Over Copper (EOC) Dedicated Broadband Service are two significantly different services. The first is a shared service that has its broadband bandwidth comprised by the number of simultaneous users. EOC does not. JIQ realized that simple cable service would not support the demand for a robust service."¹⁰ Although the Beneficiary provided the above response, they did not provide documentation to support that the price selected for services was cost effective option.

Example #2- As mentioned above, AAD conducted two different analyses, including the comparison made within the table on page seven of this report, in which AAD compared the Beneficiary's pre-discounted cost of \$78,000 for Ethernet services to the average pre-discounted costs of Ethernet services that use both the fiber and copper function, as well as, the copper function only, in the state of New York. AAD's position on this finding remains not only because the Service Provider's pre-discounted costs listed in the bids were unexpectedly high, but also because the costs were three times the state-wide average. For example, one of the schools in this analysis was Riverdale Country School with a population of 1,140 full time students¹¹ versus the Beneficiary with only approximately 563 students. This school is also in an urban area and approximately 17 miles from the Beneficiary. The Riverdale Country School is receiving a similar service (i.e. EOC) where there is data connection between two or more sites, yet the monthly recurring cost for the service is \$965.¹² Another school that is included in this comparison was Al-Noor School, with a population of 647 students.¹³ This school is also in an urban area and approximately 11 miles from the Beneficiary. The Al-Noor School is also receiving similar services (i.e. EOC) with internet access services that includes connection from any applicant site directly to the internet service provider; yet the monthly recurring cost for Al-Noor School is

⁸ 47 C.F.R. § 54.702(n).

⁹ See U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.")

¹⁰ Request on the June 21, 2018 Audit Inquiry Record from AAD to Jewish Institute of Queens. Response made during bi-weekly phone call held on June 21, 2018 with Yedidya Hirschhorn, accounting, and Richard Bernstein, consultant.

¹¹ <https://data.usac.org/publicreports/Forms/Form471Detail/Index> (Fund Year: 2016, Applicant State: New York)

¹² *Id.*

¹³ *Id.*

\$2,697.¹⁴ This school that has more students than the Beneficiary, with similar services, but Beneficiary's monthly recurring price is nearly 2.5 times the cost of Al-Noor.

Example #3 – The second analysis that AAD completed, per the table on pg. 8, was to look at services within the same zip code as the Beneficiary. In its response, the Beneficiary stated that “BEN 12360 and BEN 12368 have student populations that are 25% the size of the applicant and are single entities.” AAD agrees with the Beneficiary that the populations for both schools are less than the Beneficiary's population. In addition, AAD is not implying that the monthly cost for both schools should be the same as the monthly cost as the Beneficiary. Further, in its response, the Beneficiary stated “BEN 12360 has cable broadband services that are not a dedicated service whose market price is typically 1/10 to 1/5 the cost of Dedicated Internet Access Broadband Services.” AAD agrees per the original table above, which illustrates that the type of service for BEN 12360 is different than the type of service and material as the Beneficiary. AAD also notes that per the “narrative” column within the FCC 471, for BEN 12360 it specifies “[t]his is a one year access to broadband internet via cable at speed of 50/5 and 5 static IP's.”¹⁵ However, given the number of students, use of services and type of services the Beneficiary received; AAD has not received substantial evidence that justifies the Beneficiary's monthly recurring price being three times more than the other schools. AAD also notes that the New York Public Library (NYPL), which has a branch that is less than seven miles from the Beneficiary, also received DIA services. NYPL has multiple branches, with some contracts ranging from 1 to 3 years. Some of the branches are larger than the Beneficiary and others are smaller. In addition, the speeds range from 500Mbps to 10G, yet the range in monthly recurring cost for a single site was approximately \$1K to approximately \$6.9K, and the \$6.9K was for 5G of service for data connection between two or more sites entirely within the applicant's network.¹⁶ The Beneficiary is only receiving 50 Mbps of DIA services at a monthly recurring price of \$6,500.

Finally, the Beneficiary obtained EOC Dedicated Broadband Service over the simple cable service options. As noted in the comparison table on page seven of the report, EOC was the more expensive option. In its response, the Beneficiary stated that the charts above on pg. 8 “... compar[ed] radically different service platforms that easily account for price differentials.” AAD clarifies that the reason the exception has been noted is not because there are price differences in the services received. AAD concurs with the applicant that the EOC option will be more expensive; however, we have requested from the applicant to provide documentation to justify its decision to select the more expensive service offering. However, the Beneficiary did not provide documentation to demonstrate that its decision to select the EOC offering was cost effective.

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

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

Finding #2: 47 CFR § 54.523 - Insufficient Documentation to Demonstrate that the Beneficiary Paid its Non-Discounted Share

CONDITION

AAD requested documentation to determine whether the Beneficiary paid its non-discounted share of costs for SLP-supported services. The Beneficiary did not provide sufficient documentation to substantiate that it paid its non-discounted share of costs for the Internet access and voice services for FRN 1699127315 and 1699127363, respectively. For FRN 1699127315, the Beneficiary was billed monthly for Internet access services from July 2016 to November 2016. The Beneficiary did not provide documentation to support that it paid its non-discounted share of Internet access services for the months of July 2016 through October 2016.¹⁷ Further, the Beneficiary provided a copy of one check payment that was made for the November 1, 2016 service provider bill which was paid on September 15, 2017. The Beneficiary did not pay its non-discounted share of costs for the SLP-supported services received in November 2016 to the service provider within the timeframe that the FCC considers to be reasonable and timely (e.g., within 90 days after delivery of service).¹⁸

For FRN 1699127363, the Beneficiary provided copies of its credit card statements but did not provide a sufficient reconciliation to demonstrate that the payments shown on its credit card statements represented payments made to the service provider for the funding year. AAD requested a reconciliation from the service provider to determine whether the Beneficiary paid its non-discounted share for the voice services provided for FRN 1699127363, and the service provider responded that “the applicant paid approximately \$23K during the funding year; billing activity was approximately \$17K [and] [c]an you [AAD] reach out to the applicant to determine the intent of the payment application.”¹⁹ AAD contacted the Beneficiary who verbally stated that there were ongoing disputes between the two parties, as the service provider could not provide the correct credit amount in their monthly service provider bills. In response to this dispute, the Beneficiary decided not to pay the service provider bill according to the payment due amount identified on the service provider bills, and instead made sporadic payments to the service provider until the dispute was settled.²⁰ Because the payments shown on the credit card statements do not agree, and cannot be reconciled, to the monthly bills, and the Beneficiary and the service provider did not provide documentation to determine how the payments should be applied to the service provider bill, the Beneficiary did not demonstrate that it paid its non-discounted share of services for FRN 1699127363.

AAD is required to conduct audits in accordance with Generally Accepted Government Auditing Standards (GAGAS),²¹ which require the auditors to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.²² Because the Beneficiary did not provide sufficient documentation to demonstrate that it paid its non-discounted share of costs to the service provider within the timeframe that the FCC considers to

¹⁷ 47 C.F.R. § 54.516 (a)(1) (2015).

¹⁸ *In the Matter of Schools & Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order, FCC 04-190, 19 FCC Rcd 15808, 15816, ¶ 24 (2004) (*Fifth Report and Order*).

¹⁹ Email to AAD from Marla Ham-Chakotae at Verizon Wireless, on July 23, 2018.

²⁰ Phone call between AAD and Richard Bernstein, Consultant for Jewish Institute of Queens, on August 27, 2018.

²¹ 47 C.F.R. § 54.702(n) (2011).

²² See U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) (“Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.”).

be reasonable and timely (e.g., within 90 days after delivery of service), AAD concludes that the Beneficiary did not pay its non-discounted share of costs for FRNs 1699127315 and 1699127363.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing payment of its non-discounted share for services purchased with universal service discounts. The Beneficiary also did not have an adequate process in place to ensure that documentation supporting the payment of its non-discounted share of services was retained for at least ten years after the last date of service. The Beneficiary was unable to obtain the appropriate amount due from the Service Provider.

EFFECT

The monetary effect of this finding is \$15,416.²³ This amount represents \$10,440 (\$2,610 * four months) of the funds disbursed by SLP for the four months missing proof of payment for FRN 1699127315 and \$4,976, the total amount disbursed by SLP for the Beneficiary's discounted portion of services delivered for FRN 1699127363.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$15,416.²⁴

AAD recommends that the Beneficiary implement controls and procedures to ensure it maintains adequate records 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. AAD also recommends that the Beneficiary implement controls and procedures to ensure timely payments are made for the services and products purchased with universal service discounts.

BENEFICIARY RESPONSE

The auditor's role is to determine if the applicant paid its share of the services. In fact, the auditor admits that the applicant produced evidence that the billings for FY 2016 were paid in full with some excess. See the attached invoices & payment logs which reconciles the billings and payments.²⁵

AAD RESPONSE

The Beneficiary stated in its response that "the auditor admits that the applicant produced evidence that the billings for FY 2016 were paid in full with some excess." However, AAD does not agree with the Beneficiary's assertion. In the Condition, AAD stated that "because the payments shown on the credit card statements do not agree, and cannot be reconciled, to the monthly bills, and the Beneficiary and the service provider did not provide documentation to determine how the payments should be applied to the service provider bill, the

²³ See the updated recommendation to USAC management in the AAD Response section for finding #2.

²⁴ *Id.*

²⁵ See the "JIQ Erate Sheet Verizon Wireless pdf", "Quick Bill Summary 1-19-2017 through 12-19-18 pdfs" and "Verizon Wireless Payments 16-17 pdf" documents attached to email from Richard Bernstein, Beneficiary's Consultant, to AAD (February 17, 2020).

Beneficiary did not demonstrate that it paid its non-discounted share of services ...” Thus, AAD did not imply or admit that the applicant “produced evidence that the billings for FY 2016 were paid in full with some excess.” In addition, AAD also stated that “AAD is required to conduct audits in accordance with Generally Accepted Government Auditing Standards (GAGAS),²⁶ which require the auditors to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.²⁷ Because the Beneficiary provided documentation during the audit that could not be reconciled to the monthly bills, AAD concluded in the Condition (i.e. prior to the Beneficiary’s response) that the documentation was insufficient to confirm that the Beneficiary paid its non-discounted share.

The Beneficiary also stated in its response that AAD should “[s]ee the attached invoice & payment logs which reconciles the billings and payments.”²⁸ Upon review of the additional documentation received with the Beneficiary’s response, AAD concludes that these invoices and payment logs (including bank statements) only demonstrate that the Beneficiary paid its non-discounted share for FRN 1699127363. The new evidence does not provide any documentation for FRN 1699127315. As a result, AAD updated the original monetary effect from \$15,416 to \$10,440. Therefore, AAD recommends that USAC seek recovery of \$10,440. This updated amount represents the funds disbursed by SLP for the four months (\$2,610 *four months) missing proof of payment for FRN 1699127315.

FINDING #3: 47 C.F.R. § 54.511(a) - Failure to Comply with Competitive Bidding Requirements - Price Was Not the Primary Factor

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary carefully considered all bids and selected the most cost-effective service offering using the price of the eligible goods and services as the primary factor for voice services for FRN 1699127363. The Beneficiary submitted an RFP requesting 15 lines of cell phone service. The Beneficiary received two bids submitted by AT&T and Verizon; however, the Beneficiary did not provide documentation to demonstrate that it performed a bid evaluation. Further, AAD determined through inquiries with the Beneficiary, an examination of the Request for Proposal (RFP), and the service providers’ bids responding to the request for services that the Beneficiary did not consider price as the primary factor during the service provider selection process.

The Beneficiary informed AAD that it did not perform bid evaluations for FRN 1699127363.²⁹ AAD compared the costs offered in the bids submitted by AT&T and Verizon, to determine which service provider offered the

²⁶ 47 C.F.R. § 54.702(n) (2011).

²⁷ See U.S. Government Accountability Office, Government Auditing Standards, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) (“Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.”).

²⁸ See the “JIQ Erate Sheet Verizon Wireless pdf”, “Quick Bill Summary 1-19-2017 through 12-19-18 pdfs” and “Verizon Wireless Payments 16-17 pdf” documents attached to email from Richard Bernstein, Beneficiary’s Consultant, to AAD (February 17, 2020).

²⁹ Phone call between AAD and Richard Bernstein, E-rate Consultant for Jewish Institute of Queens, on May 24, 2018.

lowest cost. AAD examined the service providers’ bids and calculated the eligible total annual cost, as well as, the average annual cost per line for each bid, as summarized below:

Service Provider	Services	Lines	Rate Per Month	Total Eligible %	Total Bid
AT&T	25 GBS Mobile Share	Shared Pool	\$ 161	49%	\$ 947
	Shared Data	20	\$ 35	49%	\$ 4,116
	Total Per Year				\$ 5,063
	Average Annual Cost Per Line (20)				\$253
Verizon	Nationwide Talk 900	2	\$ 49	57%	\$ 665
	Email & Data 1000	7	\$ 75	57%	\$ 3,591
	ChoiceShareplan 1000	6	\$ 55	57%	\$ 2,257
	Total Per Year				\$ 6,513
	Average Annual Cost Per Line (15)				\$ 434

AAD recalculated Verizon’s quote of \$434 per line per year for 15 lines, which was more expensive than AT&T’s quote of \$253 per line per year for 20 lines. Despite the apparent difference in the prices, the Beneficiary selected Verizon. Based on the above analysis, AAD requested the Beneficiary to provide an explanation for why Verizon was selected over the other service provider despite the higher cost. The Beneficiary responded that “there are service delivery issues with other vendors at the geographic locations [,] which include but are not limited to dropped calls, low bar, etc. [and] Verizon had provided reliable and superior service.”³⁰ While the Beneficiary may take other factors, such as quality of service, into consideration during the bid evaluation, the Rules require that the price of the eligible goods and service must be given more weight than any other single factor. In this case, the Beneficiary did not provide a bid evaluation or any other documentation as evidence to support its decision. Therefore, AAD concludes that the Beneficiary’s did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor.³¹

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the competitive bidding process and selecting the most cost-effective service offering using price of the eligible goods and services as the primary factor. The Beneficiary did not review the Rules in detail, including the relevant Rules that provided clarification on the competitive bidding requirements and selecting the most cost-effective service offering using price of the eligible goods and services as the primary factor.

EFFECT

The monetary effect of this finding is \$5,151. This amount represents the total amount committed by SLP for FRN 1699127363.

³⁰ Response to Audit Inquiries Record from Richard Bernstein, E-rate Consultant for Jewish Institute of Queens, on June 29, 2018.

³¹ Ysleta Order, para. 52.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$4,976. This is the total amount of funds disbursed by SLP for FRN 1699127363. In addition, AAD recommends that USAC management issue a downward commitment adjustment to reduce the committed funds to \$0 for FRN 1699127363. The Beneficiary must implement controls and procedures to ensure it carefully considers all bids and selects the most cost-effective service offering using price of eligible goods and services as the primary factor considered. AAD also recommends that the Beneficiary examine the Rules to familiarize itself with the Rules governing the competitive bidding process and selecting the most cost-effective service offering.

BENEFICIARY RESPONSE

The assertion that the consultant stated that there was no bid evaluation may have been misunderstood since he is contractually excluded from the bid evaluation process. In speaking with the school he indicated that there were severe service issues with the competing vendor. Further exploration of the 2016 documentation [yielded] the attached bid sheet which reflects the bid [evaluation] the school [engaged] in before services were requested which reflects the comments the consultant made during the May 24th, 2018 call.

AAD RESPONSE

In its response, the Beneficiary stated that “[t]he assertion that the consultant stated that there was no bid evaluation may have been misunderstood since he is contractually excluded from the bid evaluation process.” However, on May 11, 2018, prior to the May 24th call, AAD issued a follow-up question to the Beneficiary to confirm that Richard Bernstein did not participate during the competitive bidding process for FY 2016; and on May 17, 2018, the Beneficiary responded “correct.”³² Based on this response, AAD was aware that the consultant was not involved in the bid evaluation process.

AAD issued several request for supporting documentation and reminders regarding outstanding inquiries to the Beneficiary. On June 13, 2018, AAD issued an email reminder of outstanding items to the Beneficiary. The email included the request for the bid/bid evaluation as an outstanding item.³³ On June 21, 2018, AAD sent an email to the Beneficiary that included a list of potential exceptions prior to a discussion scheduled for the same day.³⁴ In addition, the list of potential exceptions were discussed at the meeting. Finally, on July 19, 2018, AAD sent another email to the Beneficiary outlining the issues that were to be discussed on another scheduled call. The email also specifically requested that the Beneficiary review the “Audit inquiry Record Tab (potential exception row 2: please provide a response to inquiry regarding the bid evaluation.)” A representative of the Beneficiary responded directly to that email on the same date regarding one of the other outstanding items.³⁵ The Audit Inquiry that was attached specifically stated the condition that the Beneficiary

³² Response to Audit Inquiries Record from Richard Bernstein, E-rate Consultant for Jewish Institute of Queens, on May 17, 2018 in relation to Process Interview Questionnaire, Tab number 3, question number 5.

³³ Email from AAD to Yedidya Hirschhorn, accounting, and Richard Bernstein, consultant from Jewish Institute of Queens on June 13, 2018.

³⁴ Email from AAD to Yedidya Hirschhorn, accounting from Jewish Institute of Queens, and Richard Bernstein, consultant on June 21, 2018.

³⁵ Email from Yedidya Hirschhorn, accounting from Jewish Institute of Queens to AAD on July 19, 2018

“selected the more expensive provider without providing a bid evaluation or reasoning for why they selected the more expensive provider.” It also included a follow-up request for an explanation and supporting documentation that stated “please provide a reasoning for why Verizon was selected over the other beneficiary despite the higher cost. Please provide as much detail and documentation.” During a call prior to the email denoted above, the Beneficiary stated that “[t]here are service delivery issues with other vendors at the geographic location. Which include but are not limited to dropped calls, low bar etc. Verizon had provided reliable and superior service.”³⁶ However, the Beneficiary did not provide the required documentation in response to the inquiries made during the fieldwork stage of the audit.

As noted above, during fieldwork in 2018, AAD inquired of the Beneficiary in multiple attempts via phone calls and a site-visit interview regarding the bid evaluation performed for FRN 1699127363. The Beneficiary’s responses to these inquiries were consistent as to the reason Verizon was selected over the other beneficiaries; however, the Beneficiary never provided the requested bid evaluation documentation. Although the Beneficiary submitted a bid evaluation worksheet on February 17, 2020, in response to this finding with a response that it “reflects the bid evaluation the school engaged in before the services were requested,” AAD determined that due to (a.) an extensive passage of time for submission, (b.) the Beneficiary not disclosing in 2018 that they had a bid evaluation, even though multiple 2018 Audit Inquiries Records already stated this issue as a potential exception, and (c.) the Beneficiary already responded to the potential exception without disclosing at the time that they had a bid evaluation; AAD does not consider the documentation to be sufficient and reliable. GAGAS requires AAD to obtain sufficient, reliable and appropriate evidence to provide a reasonable basis for its findings and conclusions. Because the Beneficiary provided the documentation two years after numerous requests, AAD is unable to rely on the documentation and does not consider this to be sufficient. AAD’s position on this finding remains unchanged.

³⁶ Response during Bi-weekly call between AAD and Jewish Institute of Queens on July 5, 2018.

CRITERIA

Finding	Criteria	Description
#1	<i>Request for Review of the Decision of the Universal Service Administrator by Ysleta Independent School District</i> , et al., CC Docket No. 02-6, Order, 18 FCC Rcd. 26407, 26434, para. 54 (2003) (Ysleta Order).	Even if an applicant receives only one bid in response to an FCC Form 470 and/or RFP, it is not exempt from our requirement that applicants select cost-effective services. The Commission has not, to date, enunciated bright-line standards for determining when particular services are priced so high as to be considered not cost-effective under our rules. There may be situations, however, where the price of services is so exorbitant that it cannot, on its face, be cost-effective. For instance, a proposal to sell routers at prices two or three times greater than the prices available from commercial vendors would not be cost effective, absent extenuating circumstances. We caution applicants and service providers that we will enforce our rules governing cost-effectiveness in order to limit waste in the program.
#2	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.
#2	47 C.F.R. § 54.516 (a)(1) (2015).	Recordkeeping requirements—(1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.
#2	<i>Schools and Libraries Universal Service Support Mechanism</i> , CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd. 15808, 15816, para. 24 (2004).	Failure to Pay Non-discounted Share. 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.

	47 C.F.R. § 54.702(n) (2015).	When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards.
#3	47 C.F.R. § 54.511(a) (2015).	Except as exempted in §54.503(e), in selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.
#3	<i>Ysleta Order</i> , para. 52.	While non-price-specific information that goes to a bidder's experience and reputation can be important for determining cost-effectiveness, our past decisions require that actual price be considered in conjunction with these non-price factors to ensure that any considerations between price and technical excellence or other factors are reasonable. As noted above, the Commission stated in the Tennessee Order that it "certainly expect[s] that schools will evaluate the actual dollar amount proposed by a bidder . . ." for eligible services during the bidding process.

Attachment H
SL2019BE030

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

LAKE NORMAN CHARTER SCHOOL

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

USAC AUDIT No. SL2019BE030



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
LAKE NORMAN CHARTER SCHOOL
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

September 22, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Lake Norman Charter School (Beneficiary), Billed Entity Number (BEN) 16065258, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	USAC Recovery Action
<p>Finding No. 1, 47 C.F.R. 54.511(a) (2016) – Failure to Comply with Competitive Bidding Requirements – Price Was Not the Primary Factor.</p> <p>The Beneficiary was unable to provide sufficient documentation to support that it had evaluated the overall cost-effectiveness of each bid in its contract award process.</p>	\$146,154	\$146,154
Total Net Monetary Effect	<u>\$146,154</u>	<u>\$146,154</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>
- <https://www.usac.org/video/sl/10-comp-bidding/index.html>

USAC has subscribed the Beneficiary to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1799103829	\$62,105
1799100255	\$25,042
1799099820	\$59,007
Total	<u>\$146,154</u>

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2017. The Beneficiary is a public charter school located in Huntersville, North Carolina that serves more than 1,900 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for Funding Year 2017 as of October 22, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	<u>\$146,154</u>	<u>\$146,154</u>
Total	<u>\$146,154</u>	<u>\$146,154</u>

The “amount committed” total represents one FCC Form 471 *Description of Services Ordered and Certification* application submitted by the Beneficiary for Funding Year 2017 that resulted in three Funding Request Numbers (FRNs). We selected a sample of two of the FRNs, which represent \$87,147 of the funds committed and \$87,147 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, direct observation and inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its 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 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 and service provider submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary and service provider 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. 54.511(a) (2016) – Failure to Comply with Competitive Bidding Requirements – Price Was Not the Primary Factor

Condition

The Beneficiary was unable to provide sufficient documentation to support that it had evaluated the overall cost-effectiveness of each bid when awarding a contract for internal connections. The Beneficiary requested and received funding for internal connections under FRNs 1799103829, 1799100255, and 1799099820. The Beneficiary procured these services under a state master

contract and performed a mini-bid evaluation of eleven vendors. The Beneficiary prepared high-level bid evaluation documentation to support the contract award; however, the documentation did not indicate that the Beneficiary had compared the individual items and prices offered by each vendor. As a result, the Beneficiary was unable to demonstrate that it had properly evaluated the cost of eligible goods and services before selecting the successful service provider.

In addition, the bid evaluation documentation indicated that the Beneficiary did not use price as the primary factor (i.e., the most heavily weighted criteria) in its evaluation. Specifically, the documentation indicated that the Beneficiary had assigned price a weight equal to that of the geographic location of the vendor and the vendor’s ability to meet the required deployment schedule.

Cause

The Beneficiary did not demonstrate sufficient knowledge or internal processes to ensure that it followed the Rules and SLP program requirements governing the competitive procurement process.

Effect

Based on correspondence with the Beneficiary and our evaluation of the Beneficiary’s responses, we determined that the Beneficiary was unable to justify the cost-effectiveness of its use of the requested funding for internal connections under FRNs 1799103829, 1799100255, and 1799099820. As a result, the monetary effect of this finding is the full amount disbursed as of the audit announcement date.

Support Type	FRN	Monetary Effect	Recommended Recovery
Internal Connections	1799103829	\$62,105	\$62,105
Internal Connections	1799100255	\$25,042	\$25,042
Internal Connections	1799099820	\$59,007	\$59,007
Total		<u>\$146,154</u>	<u>\$146,154</u>

Recommendation

We recommend that:

1. USAC management seek recovery of the \$146,154 disbursed for the FRNs resulting from the inadequate competitive bidding process.
2. The Beneficiary implement controls to ensure that it maintains records of its evaluation of all vendor submissions to support its compliance with competitive bidding requirements.
3. The Beneficiary revise its bid evaluation criteria to ensure that price is the primary factor when evaluating bid submissions.

Beneficiary Response

For Funding Year (FY) 2017 Schools and Library Program (SLP) funding, Lake Norman Charter School performed a miscalculation on the Mini Bid evaluation. The Cost of Eligible Goods and Services were not weighted the heaviest. As a first-time novice E-rate applicant, the guideline was misinterpreted. We understood that price has to be the highest, but not solely the highest. These oversights have been remedied on future applications.

LNC was thrilled with the potential of receiving funding from E-rate because we were planning to open a new Elementary School in August. The time needed to install/prepare the student and teacher trailers along with installing a new network infrastructure in less than three months required precise timing and expert local resources to help. LNC's top 3 criteria for the mini-bid were price, location of the vendor, and the ability to deliver goods and services in a reasonable time; therefore, we assigned the most weight for these categories. Once price was vetted out, we narrowed down from the eight vendors whose pricing was similar and looked at the geographical location and the ability to meet the required deployment schedule.

A revised version of the Mini Bid with price being weighted heaviest is included in this packet. It is important to note that the reassessment with price being the most weighted, the result is still the same with A3 being the preferred vendor. This was a non-substantive mistake because even with the correction, the vendor result is the same.

[The Beneficiary's response with its revised Mini Bid is included in its entirety at appendix A.]

Auditor Response

The revised mini bid evaluation provided with the Beneficiary's response indicates that the Beneficiary awarded its service provider the highest points, with price being weighted more heavily than any other factor. However, the Beneficiary has not provided its cost evaluation or any other documentation supporting estimated costs for each bid. We are thus unable to conclude that the Beneficiary compared the individual items and prices offered by each vendor. The Beneficiary has not demonstrated that it properly evaluated the cost of eligible goods and services before selecting the successful service provider.

Criteria

Finding	Criteria	Description
1	47 C.F.R. §54.511(a)	<i>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.</i>
1	47 C.F.R. §54.503(c)(2)(ii)(B)	<i>All bids submitted for eligible products and services will be carefully considered, with price being the primary factor, and the bid selected will be for the most cost-effective service offering consistent with §54.511.</i>
1	47 C.F.R. §54.504(a)(ix)	<i>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.</i>
1	47 C.F.R. §54.516(a)	<i>Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.</i>

COTTON & COMPANY LLP



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

Appendix A: Beneficiary Response



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Lake Norman Charter School Response to the Audit

For Funding Year (FY) 2017 Schools and Library Program (SLP) funding, Lake Norman Charter School performed a miscalculation on the Mini Bid evaluation. The Cost of Eligible Goods and Services were not weighted the heaviest. As a first-time, novice E-rate applicant, the guideline was misinterpreted. We understood that price has to be the highest, but not solely the highest. These oversights have been remedied on future applications.

LNC was thrilled with the potential of receiving funding from E-rate because we were planning to open a new Elementary School in August. The time needed to install/prepare the student and teacher trailers along with installing a new network infrastructure in less than three months required precise timing and expert local resources to help. LNC's top 3 criteria for the mini-bid were price, location of the vendor, and the ability to deliver goods and services in a reasonable time; therefore, we assigned the most weight for these categories. Once price was vetted out, we narrowed down from the eight vendors whose pricing was similar and looked at the geographical location and the ability to meet the required deployment schedule.

A revised version of the Mini Bid with price being weighted heaviest is included in this packet. It is important to note that the reassessment with price being the most weighted, the result is still the same with A3 being the preferred vendor. This was a non-substantive mistake because even with the correction, the vendor result is the same.

With the expectation of a minor misstep with the Mini Bid Evaluation, we have complied all other aspects of Universal Service Fund (USF) regulation that would significantly affect FY 2017 SLP funding. The E-rate funding has dramatically improved our network infrastructure, enhanced the support of our 1:1 program, which resulted in a great education for our students. We thank you for your consideration when determining the appropriate action for this matter.

Sincerely,

Digitally signed by Lon Chang
Date: 2020.06.05 10:04:32 -04'00'

Lon Chang
Director of Technology

Shannon Stein
Superintendent

High School
12701 Old Statesville Rd.
Huntersville NC 28078
704.948.8600
704.875.2961 (fax)

Middle School
12435 Old Statesville Rd.
Huntersville NC 28078
704.948.8600
704.948.8778 (fax)

Elementary School
10019 Hambright Rd.
Huntersville NC 28078
704.948.8600



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Mini – Bid Evaluation for Category 2

Project Information:

- Updating all of our aging Aruba access points and the switches that they are connected to
- Updating all of our aging Dell switches
- Updating all of our aging UPS units
- Converting an Ethernet to fiber at the HS between HS211 to HS113
- Equipping the new Elementary school IT Infrastructure equipment

Vendor Number	Vendor Name	Product Brand Offered
V1	A3 Communications, Inc.	Aerohive / Aruba / Brocade
V2	Alphanumeric Systems, Inc.	Cabling / Prof. services
V3	Applied Network Consulting Group Inc	Xirrus / HP
V4	Carolinas IT Inc.	Professional Services
V5	CenturyLink Communications LLC	Professional Services / Cabling
V6	CNIC, Inc.	Aerohive / Meraki / Cabling
V7	Converged Networks, LLC (Brocade)	Brocade
V8	ENA Services, LLC	Aerohive / Prof. services
V9	Encore Technology Group, LLC	Professional Services / Cabling
V10	immixGroup, Inc.	Cisco / Meraki
V11	Korcett Holdings, Inc	Ruckus / Dell / Prof. services

Evaluation Criteria (For Augmenting Current Environment):

Criteria Explanations:

- Compatibility: compatibility with existing Aruba infrastructure.
- Support Compatibility: Ability to help LNC IT staff to setup, support and maintain equipment.
- Cost Of Eligible Goods and Services: Cost comparison for ERATE eligible goods and services
- Geographically close for installation and support: Local presence to help with installation and support.

Middle School: 12435 Old Statesville Road, Huntersville NC 28078 | 704.948.8600 | 704.948.8778 (fax)
 High School: 12701 Old Statesville Road, Huntersville NC 28078 | 704.875.3389 | 704.875.2961 (fax)



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- Ability to meet required deployment schedule: Capable of having the manpower to meet our tight schedule.

Criteria	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11
Hardware Compatibility (3 points)	3	0	2	0	0	2	2	2	0	2	2
Support Compatibility (4 points)	3	2	2	2	3	3	3	3	3	3	3
Cost Of Eligible Goods and Services (5 points)	5	0	5	0	0	5	5	5	5	5	5
Geographically close for installation and support (4 points)	4	2	1	2	2	3	1	1	1	1	1
Ability to meet required deployment schedule: (4 points)	4	1	2	1	1	2	2	2	1	2	2
Total of 25	19	5	12	5	6	15	13	13	10	13	13

Vendor Evaluation Notes:

After reviewing all the vendors, A3 Communications has the capability to provide all the needed services and equipment we need, such as wireless hardware, Ethernet switching, cable installation and support. Based on DPI's Vendor Matrix, Korcett can provide the same services, but they are not local. Their home office is in Austin, Texas. LNC only has 3 IT support staff, having a vendor that has local presence is very important. Korcett does not carry Brocade which was recommended by MCNC's Senior Client Network Engineer. Lastly, A3 is the most cost effective vendor.

Middle School: 12435 Old Statesville Road, Huntersville NC 28078 | 704.948.8600 | 704.948.8778 (fax)
 High School: 12701 Old Statesville Road, Huntersville NC 28078 | 704.875.3389 | 704.875.2961 (fax)

Attachment I
SL2019BE024

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

PIERCE COUNTY LIBRARY SYSTEM

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

USAC AUDIT No. SL2019BE024



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PIERCE COUNTY LIBRARY SYSTEM
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

September 22, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Pierce County Library System (Beneficiary), Billed Entity Number (BEN) 145283, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, and 2) data used to calculate the discount percentage and the type and amount of services received. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	Recovery Action
<p>Finding No. 1, 47 C.F.R. § 54.504(e) (2016) – Beneficiary Over-Invoiced USAC for Ineligible Services. The Beneficiary submitted BEARs for ineligible and erroneous telephone services.</p>	\$628	\$628
<p>Finding No. 2, 47 C.F.R. 54.507(d) (2016) – Beneficiary Over-Invoiced USAC for Services Delivered Outside of the Funding Year. The Beneficiary billed USAC for Internet access services received after the end of the Funding Year.</p>	<u>\$1,885</u>	<u>\$1,885</u>
Total Net Monetary Effect	<u>\$2,513</u>	<u>\$2,513</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. If there are other FRNs under the scope of the findings, there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC refers the applicant to our website for additional resources. Various links are listed below:

<https://www.usac.org/e-rate/applicant-process/invoicing/fcc-form-472-filing/>

<https://www.usac.org/e-rate/trainings/bear-training-site/>
https://www.usac.org/video/sl/2019/invoicing/story_html5.html

<https://www.usac.org/e-rate/applicant-process/before-you-begin/eligible-services-overview/>

USAC records show the beneficiary was subscribed to the News Brief and then unsubscribed in March of 2020. USAC has subscribed the Beneficiary to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1799058316	\$628
1799081796	\$1,885
Total	<u>\$2,513</u>

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2017. The Beneficiary is a library system located in Tacoma, Washington that serves 602,000 individuals throughout the county. The Beneficiary includes 20 libraries, as well as online services.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for Funding Year 2017 as of October 15, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$533,904	\$510,348
Voice	<u>\$18,259</u>	<u>\$17,248</u>
Total	<u>\$552,163</u>	<u>\$527,596</u>

The “amount committed” total represents two FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2017 that resulted in seven Funding Request Numbers (FRNs). We selected a sample of three of the FRNs, which represent \$507,159 of the funds committed and \$499,867 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 inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the 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 with the selected service providers. In addition, we evaluated the cost-effectiveness of the services requested and purchased.

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 54.504(e) – Beneficiary Over-Invoiced USAC for Ineligible Services

Condition

The Beneficiary submitted BEARs for ineligible and erroneous telephone services under FRN 1799058316. We reviewed the service provider's bills and identified ineligible services that the Beneficiary did not remove before invoicing the SLP, as well as a contract rate overbilling error, as follows:

- *Non-Published Service:* The Beneficiary identified this service as ineligible; however, it only removed a portion of the charges before invoicing the SLP for the services. Specifically, the Beneficiary removed charges for two lines at \$2 per line per month; however, the cost per line actually ranged from \$2.50 to \$3 during Funding Year (FY) 2017. As a result, the Beneficiary overbilled the SLP by a total of \$23.
- *Three-Way Call Transfer:* The service provider billed the Beneficiary for six lines at \$8 per line per month, for a total annual charge of \$576.
- *Call Forwarding:* The service provider billed the Beneficiary for nine lines at \$7 per line per month, for a total annual charge of \$756.
- *Hot Line Service:* The service provider billed the Beneficiary for two lines at \$2 per line per month, for a total annual charge of \$48.
- *Directory Assistance:* The service provider billed the Beneficiary for a one-time charge of \$5 in March 2018.
- *Fire Alarm Line:* The service provider billed the Beneficiary for one fire alarm line at \$29 to \$31 per month, for an annual charge of \$555, including associated taxes and fees.
- *Business Line:* The Beneficiary's contracted rate for these services was \$24 per line per month. However, the service provider billed one line at \$35 per month for 12 months, exceeding the contractual price for the service by a total of \$132.

The following chart summarizes the ineligible costs by service:

Service	Total Amount Billed	Amount Removed by the Beneficiary	Amount Billed to USAC
Non-Published Service	\$71	\$48	\$23
Three-Way Call Transfer	\$576	\$0	\$576
Call Forwarding	\$756	\$0	\$756
Hot Line Service	\$48	\$0	\$48
Directory Assistance	\$5	\$0	\$5
Fire Alarm Line	\$555	\$0	\$555
Business Line Overbilling	<u>\$132</u>	<u>\$0</u>	<u>\$132</u>
Total	<u>\$2,143</u>	<u>\$48</u>	<u>\$2,095</u>

Cause

The Beneficiary did not have adequate procedures and controls in place to ensure that it only invoiced the SLP for the discounted costs of eligible services that are billed using accurate contract rates. The Beneficiary’s consultant reviews the first and last bill of each funding year and compares the services and number of lines received to ensure that services did not change. However, the consultant’s review did not identify the ineligible services and erroneous contract rate. We inquired with the service provider and determined that the erroneous contract rate for one business line (i.e., \$35 per month rather than \$24 per month) was likely caused by an error in the service provider’s system.

Effect

The Beneficiary did not remove a total of \$2,095 in ineligible and erroneous contract charges from the service provider’s billings before invoicing the SLP. Because the Beneficiary’s discount rate for voice services was 30 percent, it received a total of \$628 in ineligible support.

Support Type	Monetary Effect	Recommended Recovery
FRN 1799058316 – Voice	\$628	\$628

Recommendation

We recommend that:

1. USAC management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary implement a quality control review process to ensure that all charges are eligible and to detect any errors in the contract rates before submitting FCC Forms 472 to USAC.

Beneficiary Response

The Library acknowledges and agrees with the auditor’s conclusions of inadequate procedures and controls that led to submitting ineligible requests amounting to \$628 reimbursed to the

Library. The Library accepts the recommendations and has already made adjustments in its controls and processes. The Library further notes that telephone reimbursements are no longer eligible under the USAC program, and thus we do not anticipate any problems henceforth with telephone related invoices.

We agree to USAC’s cost recovery of the amount stated, \$628.

Finding No. 2, 47 C.F.R. §54.507(d) – Beneficiary Over-Invoiced USAC for Services Received Outside of the Funding Year

Condition

The Beneficiary did not appropriately invoice USAC for FY 2017 Internet access services. On May 8 and October 4, 2018, the Beneficiary submitted BEARs to request reimbursement under FRN 1799081796 for dedicated fiber Internet services delivered by WaveDivision Holdings, LLC. The period of performance for the invoiced services was August 1, 2017, through July 31, 2018; however, FY 2017 ended June 30, 2018. The Beneficiary should have invoiced for the services it received from July 1, 2017 to June 30, 2018.

Cause

The Beneficiary stated that, based on its SLP training, it had understood that because service dates do not always begin on the first of the month, beneficiaries are able to choose which invoices to submit for reimbursement, provided that the beneficiaries use a consistent methodology. The Beneficiary therefore used the bill dates as the service month when completing its BEARs, rather than using the period in which it received the services. As a result, the Beneficiary invoiced the SLP for services delivered outside the Funding Year.

Effect

The Beneficiary was entitled to SLP funding for twelve months of services, however, the service provider billed the July 2018 services at a rate that was higher than the July 2017 rate, resulting in increased pre-discount costs of \$2,094 for July 2018 services. Because the Beneficiary’s discount rate for Internet access services was 90 percent, it received a total of \$1,885 in support for services delivered outside of the Funding Year.

Support Type	Monetary Effect	Recommended Recovery
FRN 1799081796 – Internet Access	\$1,885	\$1,885

Recommendation

We recommend that:

1. USAC management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary familiarize itself with the Rules related to submitting BEARs only for services delivered within the Funding Year.

3. The Beneficiary implement a quality control review process to ensure that amounts billed are for services provided within the Funding Year before submitting FCC Forms 472 to USAC.

Beneficiary Response

The Library acknowledges and agrees with the auditor’s conclusions of the misunderstanding of the rules regarding service dates that led to a submission of an invoice outside of the funding year, amounting to \$1,885 reimbursed to the Library. The Library accepts the recommendations and has already made adjustments in its controls and processes. The Library further accepts its responsibility in familiarization of the rules.

We agree to USAC’s cost recovery of the amount stated, \$1,885.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.504(e) (2016)	<p><i>(e) Mixed eligibility services. A request for discounts for a product or service that includes both eligible and ineligible components must allocate the cost of the contract to eligible and ineligible components.</i></p> <p><i>(1) Ineligible components. If a product or service contains ineligible components, costs must be allocated to the extent that a clear delineation can be made between the eligible and ineligible components. The delineation must have a tangible basis, and the price for the eligible portion must be the most cost-effective means of receiving the eligible service.</i></p>
1	47 C.F.R. § 54.502(a) (2016)	<p><i>Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms.</i></p>
1	<i>In the Matter of Modernizing the E-rate Program for Schools and Libraries, WC Docket No. 13-184, Order and</i>	<p><i>Beginning in funding year 2015, [the Commission] will no longer provide E-rate support for components of telephone service, outdated services such as paging and directory assistance, and services that may use broadband but do not provide it, including email, voice mail, and web hosting.... [B]ecause these services are typically provided as an add-on or enhanced services for an extra fee, they are often</i></p>

Finding	Criteria	Description
	Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, paras. 145, 149 (2014) (<i>E-rate Modernization Order</i>).	<i>presented as separate line items on telephone bills. Accordingly, it should not be overly burdensome for applicants to seek funding for the voice component of the telephone service only, and provide a cost allocation for any telephone features we remove from the ESL.</i>
2	47 C.F.R. § 54.507(d) (2016)	<i>(1) Schools and libraries, and consortia of such eligible entities shall file new funding requests for each funding year no sooner than the July 1 prior to the start of that funding year. Schools, libraries, and eligible consortia must use recurring services for which discounts have been committed by the Administrator within the funding year for which the discounts were sought.</i>

COTTON & COMPANY LLP



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

**Attachment J
SL2019BE025**

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

PROJECT SOCRATES

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

USAC AUDIT No. SL2019BE025



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DOCUMENTATION DID NOT SUPPORT FIGURES IN BLOCK 4 OF THE FCC FORM 471 5

CRITERIA 8



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PROJECT SOCRATES
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

September 22, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Project Socrates (Beneficiary), Billed Entity Number (BEN) 151393, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, and 2) data used to calculate the discount percentage and the type and amount of services received. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	Overlapping Recovery	Recovery Action
<p>Finding No. 1, 47 C.F.R. §54.505(b)(1) – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471. The Beneficiary used an incorrect discount rate for Internet access services; specifically, five of its members used outdated data in calculating their discount rates.</p>	\$15,062	\$0	\$15,062
Total Net Monetary Effect	<u>\$15,062</u>	<u>\$0</u>	<u>\$15,062</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. If there are other FRNs under the scope of the finding there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified.

USAC refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/applying-for-discounts/calculating-discounts/>
- <https://www.usac.org/e-rate/learn/faqs/calculating-discount-rates/>

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1799083930	\$15,062

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2017. The Beneficiary is a consortium located in North Mankato, Minnesota that serves more than 80 members.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for Funding Year (FY) 2017 as of November 13, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed*
Data Transmission and/or Internet Access	\$1,069,458	\$1,038,772
Managed Internal Broadband Services	4,777	4,777
Voice	12,198	11,715
Total	<u>\$1,086,433</u>	<u>\$1,055,264</u>

*Disbursements for data transmission and/or Internet access are net of a \$12,688 reimbursement from the service provider for FRN 1799083930. This reimbursement is for amounts overbilled to USAC for July and August 2018 (FY 2018) services.

The “amount committed” total represents four FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2017 that resulted in six Funding Request Numbers (FRNs). We selected a sample of three of the FRNs, which represent \$1,070,888 of the funds committed and \$1,041,338 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 inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the 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 members’ Internet Safety Policies and obtained an understanding of the process by which the members communicated and administered the policies.

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 with the selected service providers. In addition, we evaluated the cost-effectiveness of the services requested and purchased.

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

Detailed Audit Finding

Finding No. 1, 47 C.F.R. §54.505(b)(1) – Inadequate Discount Calculation Process – Documentation Did Not Support Figures in Block 4 of the FCC Form 471

Condition

The Beneficiary’s claimed discount rate for Internet access services under FRN 1799083930 was not based on current data. The Beneficiary claimed a discount rate of 69 percent based on the average for all members receiving the services; however, based on current National Schools and Lunch Program (NSLP) data, this percentage was overstated. Five of the Beneficiary’s members used NSLP data from the 2015–2016 school year to support their FY 2017 discount rates; however, the members should have used NSLP data from the 2016–2017 school year instead, which decreased the NSLP eligibility percentage for those members. As a result, the Beneficiary’s average consortium discount rate for all members decreased from 69 percent to 68 percent.

Cause

The Beneficiary’s members did not demonstrate sufficient knowledge or that internal processes exist to ensure that they followed the Rules and SLP program requirements. The Beneficiary explained that some members used the most recently published NSLP data from the Minnesota Department of Education because they assumed that would be easier for USAC reviewers to verify in the FRN approval process.

Effect

The Beneficiary overstated its discount rate by 1 percent (69 percent minus 68 percent). The Beneficiary invoiced USAC a pre-discount total of \$1,506,203 in eligible costs under FRN 1799083930; as a result, the Beneficiary’s overstated discount rate caused USAC to over-reimburse the Beneficiary by \$15,062 (\$1,506,203 multiplied by 1 percent).

Support Type	Monetary Effect	Recommended Recovery
Data Transmission and/or Internet Access	\$15,062	\$15,062

Recommendation

We recommend that:

1. USAC management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiary implement controls to ensure that its members use current NSLP data to support their discount rate calculations.

Beneficiary Response

In response, while Project SOCRATES will implement further controls as outlined below, Project SOCRATES formally requests that USAC management not exercise recovery of the amounts, for the following reasons:

1. *The finding suggests that only current-year data may be used in calculating student discounts. Project SOCRATES, however, finds no language to support this in the rules, and we believe there are circumstances where the use of data from the directly preceding school year may be warranted.*
 - *The timing of the [FCC] Form 471 filing window sometimes warrants this. For example, at the opening of this year's filing window in January 2020, the most recently published data on the Minnesota Department of Education's website was for the 2018-2019 school year. The data for the current 2019-2020 school year was not published until well over a month into the filing window.*
 - *One of our members uses an experienced E-Rate consultant who told them "It has been acceptable in the past to use the prior year's numbers as long as they could be validated." This has been our understanding as well, based on discussion at USAC's annual Fall Applicant Trainings in Minneapolis – that independently-verifiable data can at times be preferable to more current, but unverifiable data.*
 - *It would seem that USAC has supported this position as well: one of our districts told us that during PIA review of their own [FCC] Form 471 for funding year 2017, the reviewer indicated they would be changing the discount calculation to use enrollment numbers for the 2015-16 year, because the reviewer was unable to verify the numbers the district was reporting for the 2016-17 year.*

In 47 C.F.R. §54.505(b)(1) we see information on the data that is to be used in calculating the discount, but we find no language constraining that calculation to use data from any specific timeframe.

If USAC will accept data for the current school year only, then we respectfully recommend that rules language be amended to reflect this as a mandatory requirement.

Please further note:

- *Prior to the introduction of USAC’s E-Rate Productivity Center (EPC), our consortium was able to ensure the proper calculation of the consortium discount percentage by entering student counts directly from data published by the Minnesota Department of Education on [FCC] Form 471.*
- *With the introduction of EPC, USAC removed this ability from the consortium and placed it instead with the consortium members. Within our consortium many members don’t otherwise use EPC – indeed, have no need for EPC, in that they are members of a consortium – except for this once-a-year enrollment data update. We repeatedly encouraged our members via multiple emails and in-person meetings to make sure that their EPC data was up to date, but this finding now clearly shows that not everyone did act in accordance.*

There are instances, we believe, where a consortium is better positioned than the entities themselves, to populate EPC with up-to-date data, and we respectfully encourage USAC to consider helping consortia, if not through direct access to edit member data, by providing at least a better tool for communicating changes to that data to USAC, within the [FCC] Form 471 filing process.

2. *Project SOCRATES agrees that Further Controls are in order, as outlined below:*

- *As we file a [FCC] Form 471 for the upcoming 2020 funding year, Project SOCRATES will be reviewing student count data in EPC and comparing it to the recently published numbers for the current school year provided by the Minnesota Department of Education.*
- *Based on advice received in USAC’s recent “Office Hours” webinars, we will use the narrative section of the FRN to indicate any corrections we believe need to be made, so that PIA may consider these and ensure that we have the proper discount before a funding commitment is made.*
- *For future funding years, our process will be that in the late fall of each year, Project SOCRATES will prepare and send a form to each of our members, requiring them to sign and certify that they have:*
 - Updated each of their member entities’ profiles in EPC, including current year student counts.*
 - Used the October 1st counts that will eventually appear in the Minnesota Department of Education’s published enrollment data file.*
 - Or, if they have used other enrollment counts, to provide Project SOCRATES with a copy of documentation that supports the numbers used to ensure that the consortium has that information on-file and available for the duration of the USAC-required records retention period.*

We will require that the signed forms be returned to us prior to the closing of the EPC Administrative Window, and the start of the [FCC] Form 471 filing window so that we are assured of receiving the correct discount rate on the consortium's [FCC] Form 471.

Auditor Response

We do not agree that delays in publishing data on the Department of Education's website are justification for using prior-year NSLP data, since the consortium members are the source of this data. Most of the members' FY 2017 NSLP data was current, which is further evidence that the remaining members should not have been impacted by any such delays.

The FCC's *E-rate Modernization Order* states that the FCC Form 471 instructions instruct applicants to “[p]rovide the number of students eligible for the National School Lunch Program (NSLP) as of the October 1st prior to the filing of this form, or use the most current figure available.”¹ It does not require that the number be posted or available from a State's Department of Education or that it be independently verifiable. In addition, the FCC's *E-rate Modernization Order* acknowledges that “schools that participate in the NSLP collect, on an annual basis, individual eligibility applications from each of their students seeking free or reduced-priced lunches... [and the] [s]chools use the NSLP eligibility data for many other purposes, including calculating an applicant's E-rate discount rate.”² Thus, consistent with most of the Beneficiary's other members, the members that utilized the prior year's numbers available on the Minnesota Department of Education website, should have utilized the results from their individual eligibility applications for the months preceding the submission of the FCC Form 471 that provided the most current figures available.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.505 (2016)	<p>(a) <i>Discount mechanism. Discounts for eligible schools and libraries shall be set as a percentage discount from the pre-discount price.</i></p> <p>(b) <i>Discount percentages. The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers, as defined in this subpart. The discounts available to a particular school, library, or consortium of only such entities shall be determined by indicators of poverty and high cost.</i></p>

¹ See *In the Matter of Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, n. 255 (2014) (*E-rate Modernization Order*).

² *Id.* at para. 226.

Finding	Criteria	Description
		<p><i>(1) 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.</i></p> <p><i>(2) For libraries and library consortia, 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 in the public school district in which they are located and should use that school district's level of poverty to determine their discount rate when applying as a library system or as an individual library outlet within that system. When a library system has branches or outlets in more than one public school district, that library system and all library outlets within that system should use the address of the central outlet or main administrative office to determine which school district the library system is in, and should use that school district's level of poverty to determine its discount rate when applying as a library system or as one or more library outlets. If the library is not in a school district, then its level of poverty shall be based on an average of the percentage of students eligible for the national school lunch program in each of the school districts that children living in the library's location attend.</i></p> <p><i>(3) The Administrator shall classify schools and libraries as "urban" or "rural" according to the following designations.</i></p>

Finding	Criteria	Description
		<p><i>(i) The Administrator shall designate a school or library as “urban” if the school or library is located in an urbanized area or urban cluster area with a population equal to or greater than 25,000, as determined by the most recent rural-urban classification by the Bureau of the Census. The Administrator shall designate all other schools and libraries as “rural.”</i></p> <p><i>(4) School districts, library systems, or other billed entities shall calculate discounts on supported services described in § 54.502(a) that are shared by two or more of their schools, libraries, or consortia members by calculating an average discount based on the applicable district-wide discounts of all member schools and libraries. School districts, library systems, or other billed entities shall ensure that, for each year in which an eligible school or library is included for purposes of calculating the aggregate discount rate, that eligible school or library shall receive a proportionate share of the shared services for which support is sought. For schools, the discount shall be a simple average of the applicable district-wide percentage for all schools sharing a portion of the shared services. For libraries, the average discount shall be a simple average of the applicable discounts to which the libraries sharing a portion of the shared services are entitled.</i></p>
1	<i>E-rate Modernization Order, at para. 115, n.255.³</i>	<i>The current instructions for FCC Form 471 state to “[p]rovide the number of students eligible for NSLP as of the October 1st prior to the filing of this form, or use the most current figure available.”</i>
1	<i>E-rate Modernization Order, at para. 226.⁴</i>	<i>Traditionally, schools that participate in the NSLP collect, on an annual basis, individual eligibility applications from each of their students seeking free or reduced-priced lunches. Schools use the NSLP eligibility data for many other purposes, including calculating an applicant’s E-rate discount rate.</i>

³ *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd. 8870, 8904 at para. 115, n.255 (2014) (*E-rate Modernization Order*).

⁴ *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd. 8870, 8904 at para. 226 (2014) (*E-rate Modernization Order*).

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Michael W. Gillespie". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping underline.

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

**Attachment K
SL2019LS003**



**Universal Service
Administrative Co.**

Southwest Region School District

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2019LS003

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EXECUTIVE SUMMARY

August 28, 2020

Steve Noonkesser
Southwest Region School District
574 Kenny Wren Rd.
Dillingham, AK 99576

Dear Mr. Noonkesser:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Southwest Region School District (Beneficiary), Billed Entity Number (BEN) 145573, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination did not disclose any areas of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in cursive script that reads "Teleshia Delmar".

Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2018 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$1,482	\$1,482
Internet Access	\$2,802,740	\$2,794,732
Total	\$2,804,222	\$2,796,214

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

The committed total represents two FCC Form 471 applications with three Funding Request Numbers (FRNs). AAD selected two FRNs of the three FRNs¹, which represent \$2,802,740 of the funds committed and \$2,794,732 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2018 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a School District located in Dillingham, AK that serves over 600 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

¹ The FRNs included in the scope of this audit were: 1899006833 & 1899006854.

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether the Beneficiary properly selected a service provider that provided eligible services and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected service providers. AAD examined the service provider contracts to determine whether they were properly executed.

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

**Attachment L
SL2019BE035**

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

STEVENS POINT AREA SCHOOL DISTRICT

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

USAC AUDIT No. SL2019BE035



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
STEVENS POINT AREA SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

October 2, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Stevens Point Area School District (Beneficiary), Billed Entity Number (BEN) 133245, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers and 2) data used to calculate the discount percentage and the type and amount of services received. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	Recovery Action
<p>Finding No. 1, FCC Form 474 (SPI) User Guide, at 11-12 (2017) – Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills. The service provider over-invoiced the SLP for Internet access under the Beneficiary’s FRN 1799030372.</p>	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$0</u>	<u>\$0</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. USAC records indicate the overpayment of \$680 was returned to USAC on February 25, 2020; therefore, no recovery is warranted. USAC will request the applicant and service provider provide copies of policies and procedures implemented to address the issue identified.

USAC refers the applicant and service provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/fcc-form-474-filing/>
- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/electronic-invoicing/>
- https://www.usac.org/video/sl/sp/2019/advanced-invoicing/story_html5.html

USAC records show the applicant and service provider are currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the applicant and service provider to review the News Brief as it contains valuable information about the E-rate Program.

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2017. The Beneficiary is a school district located in Stevens Point, Wisconsin that serves more than 4,900 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for Funding Year 2017 as of November 12, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$132,923	\$122,900
Total	\$132,923	\$122,900

The “amount committed” total represents one FCC Form 471 *Description of Services Ordered and Certification* application submitted by the Beneficiary for Funding Year 2017 that resulted in three Funding Request Numbers (FRNs). We selected a sample of two of the FRNs, which represent \$114,444 of the funds committed and \$109,940 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

inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

B. Competitive Bid Process

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

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

Detailed Audit Finding

Finding No. 1, FCC Form 474 (SPI) User Guide, at 11-12 – Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills

Condition

TDS Metrocom (Service Provider) over-invoiced the SLP for Internet access under the Beneficiary's FRN 1799030372. Specifically, the Service Provider invoiced the SLP for the pre-discounted costs of \$16,254 in eligible services on its SPI forms; however, the bills only identified pre-discounted costs of \$15,120 in eligible services. As a result, USAC over-disbursed a total of \$680 for Internet access services (\$1,134 multiplied by the Beneficiary's 60 percent discount rate).

Cause

Because the Service Provider's bills did not fall evenly on a monthly basis, it manually pro-rated billings in its invoices to USAC so that it only invoiced for services delivered during the funding year. However, the Service Provider made an error in its manual calculation of the pro-rated amount for Funding Year 2017, causing it to over-invoice USAC. While the Beneficiary reviews Service Provider billings, its reviews were not sufficient to identify the excess discounts credited to its account for the over-invoiced amounts.

Effect

The Service Provider overstated its invoices to SLP by \$1,134 or the pre-discount cost of the Internet access services. The Beneficiary's discount rate for the one FRN was 60%, resulting in total USAC overpayment of \$680. The Beneficiary refunded \$680 to USAC in February 2020, when it discovered the overbillings, thus there is no recommended recovery.

Recommendation

We recommend that:

1. The Service Provider implement a quality control review process to ensure that amounts included on the SPI forms are correct before it submits the forms to USAC.
2. The Beneficiary implement a quality control review process to ensure that it verifies the accuracy of discounts credited to its service provider accounts.

Service Provider Response

TDS has a quality control review process in place to ensure that the SPI credits are correct before being submitted for invoicing. We have reviewed and improved our process to ensure the correct amounts are submitted. For example, the spreadsheet that we use to track this information has been reviewed and updated.

In addition, we have implemented a review process where another individual from the team will review the SPI funding against our tracking spreadsheet for accuracy. We are confident that these improvements will ensure accurate submission of SPI invoicing.

Criteria

Finding	Criteria	Description
1	Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide, at 11-12 (Rev. Apr. 2017)	<p>Item (11) - Total (Undiscounted) Amount for Service per FRN. This item represents the total undiscounted monthly and one-time charges for all eligible services on the individual invoice or bill issued to the customer. This item represents the total price for eligible service before any eligible discount is applied. The total undiscounted amount may include all reasonable associated charges, such as federal and state taxes, that the customer incurs when they obtain services....</p> <p><i>Block 3: Service Provider Certifications and Signature</i> A person authorized to sign this form must be responsible for the service provider’s preparation and submission of invoice forms to seek reimbursement from the schools and libraries universal service support mechanism. This person must be able to certify to the accuracy of the invoice forms and their compliance with FCC rules....</p> <p>The authorized person must certify under penalty of perjury, to the best of his/her knowledge, information and belief, that:</p> <p>A. This Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and acknowledges 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.</p>

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Partner

Attachment M
SL2019BE022

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

WAYNESVILLE SCHOOL DISTRICT R6

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

USAC AUDIT No. SL2019BE022



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

Executive Summary

October 2, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Waynesville School District R6 (Beneficiary), Billed Entity Number (BEN) 137438, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, and 2) data used to calculate the discount percentage. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	Recovery Action
Finding No. 1, 47 C.F.R. §54.505(b)(1) (2016) – Beneficiary Inaccurately Calculated Its Discount Rate. The Beneficiary used unsupported and incomplete enrollment data in its discount rate calculation.	\$0	\$0
Total Net Monetary Effect	<u>\$0</u>	<u>\$0</u>

USAC Management Response

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

USAC refers the applicant to our website for additional resources. A helpful link has been provided below relating to how discount rates are calculated:

- <https://www.usac.org/e-rate/learn/faqs/calculating-discount-rates/>

USAC has subscribed the Beneficiary to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year (FY) 2017. The Beneficiary is a school district located in Waynesville, Missouri that serves approximately 6,000 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for FY 2017 as of January 6, 2020, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Voice	\$1,926	\$1,926
Data Transmission and/or Internet Access	\$92,509	\$90,441
Total	\$94,435	\$92,367

The “amount committed” total represents one FCC Form 471 *Description of Services Ordered and Certification* application submitted by the Beneficiary for FY 2017 that resulted in four Funding Request Numbers (FRNs). We selected a sample of three of the FRNs, which represent \$92,609 of the funds committed and \$90,541 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 inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) primarily considered the price of the eligible services 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 services requested and purchased.

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the 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. Beneficiary Location

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

E. Reimbursement Process

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

Detailed Audit Findings

Finding No. 1, 47 C.F.R. §54.505(b)(1)¹ – Beneficiary Inaccurately Calculated Its Discount Rate

Condition

The Beneficiary was unable to provide the documentation used in its discount rate calculation. The Beneficiary stated that it filled out its FCC Form 471 using data from its Student Information System (SIS). The Beneficiary considers the SIS to be its most accurate system, as the system inactivates students who leave during the year. However, the Beneficiary did not retain copies of the SIS report that it used to complete the FY 2017 FCC Form 471, and the SIS is unable to generate prior-period reports. The Beneficiary provided a FY 2017 report that it generated using its food services software; however, the food services software contains different enrollment figures. In addition, the data from the food services software includes eligible facilities that the Beneficiary inadvertently excluded from its FCC Form 471.

These discrepancies caused a variation in the Beneficiary's eligibility rate; however, they did not impact the Beneficiary's discount rate.

The following table summarizes the differences between the information included in the Beneficiary's FCC Form 471 and the data included in the supporting documentation that the Beneficiary provided (i.e., reports from its food services software).

¹ Also, 47 C.F.R. § 54.516(a)(1) (2016).

Data Comparison	FCC Form 471 Data	Supported Data	Results
Eligible Students	2,637	2,687	The enrollment and National School Lunch Program (NSLP) data included in the supporting documentation did not change the Beneficiary's discount rate for FY 2017.
Enrolled Students	5,975	6,394	
Eligibility Rate	44.13%	42.02%	
Cat. 1 Discount Rate*	70%	70%	
Voice (60% Reduction)*	10%	10%	
Cat. 2 Discount Rate*	70%	70%	

**Per USAC's Approved Discount Rate Table for FY 2017 Services.*

Cause

The Beneficiary did not have sufficient internal controls in place to ensure that it retained the documentation that it used to complete its FCC Form 471, or to ensure that it appropriately documented and verified the information that it used in the filings before submitting the filings to USAC for its funding requests. The Beneficiary stated that its difficulty in locating the documentation supporting the FY 2017 E-rate filings was caused by staff turnover.

Effect

The food services software data resulted in a lower eligibility percentage but did not change the Beneficiary's discount rates for services requested during FY 2017. However, using incomplete and unsupported enrollment figures could impact the Beneficiary's discount rate(s) and funding request(s) in future funding years.

Recommendation

We recommend that the Beneficiary implement procedures to ensure that it enters data into its FCC Form 471 in a consistent and precise manner, and that it retains supporting documentation to maintain data integrity and ensure that it properly calculates its discount rates.

Beneficiary Response

The Waynesville R-VI School District acknowledges the recommendation to ensure data is entered into FCC Form 471 in a consistent and precise manner and to retain supporting documentation to maintain data integrity and to properly calculate discount rates. The Waynesville R-VI School District will put the proper practices and procedures in place to ensure this happens for all USAC submissions.

Criteria

Finding	Criteria	Description
1	47 C.F.R. §54.505(b)(1) (2016)	<i>(1) 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</i>

Finding	Criteria	Description
		<i>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.</i>
1	47 C.F.R. §54.516(a)(1) (2016)	<i>(1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.</i>

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Partner

Attachment N
SL2019BE020

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

WILLIAM PENN SCHOOL DISTRICT

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

USAC AUDIT No. SL2019BE020



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
WILLIAM PENN SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

October 1, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of William Penn School District (Beneficiary), Billed Entity Number (BEN) 126121, 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 Comptroller General of the United States (2018 Revision). 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 three detailed audit findings, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or

investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 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 three detailed audit findings discussed below.

Audit Results	Monetary Effect ¹	Overlapping Recovery ²	Recovery Action ³	Downward Commitment Adjustment
<p>Finding No. 1, 47 C.F.R. §54.503(a)(b)(c) (2016) – Failure to Comply with Competitive Bidding Requirements. The Beneficiary did not conduct a fair and open bidding process for voice services.</p>	\$30,455	\$0	\$30,455	\$30,455
<p>Finding No. 2, FCC Form 472 User Guide (April 2017) – The Beneficiary Over-Invoiced the SLP for Costs Exceeding the Service Provider’s Bills. The Beneficiary was unable to provide service provider bills to support the total undiscounted amount that it requested for voice services.</p>	\$26,568	\$26,568	\$0	\$0

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

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

Audit Results	Monetary Effect ¹	Overlapping Recovery ²	Recovery Action ³	Downward Commitment Adjustment
Finding No. 3, 47 C.F.R. §54.523 (2016) – Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider. The Beneficiary did not consistently pay the non-discounted portion of its service providers’ bills for Internet access services within 90 days after the service providers delivered the services.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$57,023</u>	<u>\$26,568</u>	<u>\$30,455</u>	<u>\$30,455</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>
- <https://www.usac.org/video/sl/10-comp-bidding/index.html>
- <https://www.usac.org/e-rate/trainings/bear-training-site/>
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>

USAC has subscribed the Beneficiary to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1799077876	\$30,455

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2017. The Beneficiary is a school district located in Lansdowne, Pennsylvania that serves approximately 5,000 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for Funding Year 2017 as of October 9, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$232,479	\$232,479
Data Transmission and/or Internet Access	\$57,988	\$57,988
Voice	\$36,667	\$36,667
Total	<u>\$327,134</u>	<u>\$327,134</u>

The “amount committed” total represents two FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2017 that resulted in seven Funding Request Numbers (FRNs). We selected a sample of three of the FRNs, which represent \$276,312 of the funds committed and \$276,312 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, direct observation, and inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) primarily considered the price of the eligible services and goods in selecting the service provider. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 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 used the funding in an effective manner.

E. Reimbursement Process

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

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 54.503(a)-(c) (2016)⁴ – Failure to Comply with Competitive Bidding Requirements

Condition

The Beneficiary did not conduct a fair and open bidding process for voice services funded under FRN 1799077876. The Beneficiary's FCC Form 470, *Description of Services Requested and Certification Form*, listed the following options for the requested voice services: "Analog, Digital, Interconnected VOIP [Voice over Internet Protocol], etc." The narrative section of the FCC Form 470 further stated, "Voice Service will provide communications throughout the entire school district 2 PRIs 190 Business Lines."

The Beneficiary received three bids for voice services, including bids to provide VOIP and digital technology. However, in performing its evaluation and awarding the contract, the Beneficiary only considered one of the three bids: a bid from Comcast for analog lines. The Beneficiary stated that it did not consider the other bids because they did not include plain old

⁴ See also 47 C.F.R. §54.511(a) (2016).

telephone service (POTS), which the Beneficiary required for its fax and emergency lines. However, the Beneficiary’s FCC Form 470 did not state that bidders must include prices for POTS.

Cause

The Beneficiary did not demonstrate sufficient knowledge or internal processes to ensure that it followed the Rules and SLP requirements governing the competitive bid and award process. Beneficiary representatives stated that the Beneficiary had assumed it was common knowledge that a school district would require POTS lines for use in emergency situations.

Effect

The Beneficiary was unable to demonstrate that its contract award for voice services was reasonable and cost-effective. As a result, the monetary effect of this finding is the full amount disbursed as of the audit announcement date.

Support Type	Monetary Effect	Recommended Recovery	Downward Commitment Adjustment
Voice Services (FRN 1799077876)	\$30,455	\$30,455	\$30,455

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above and record a downward commitment adjustment for the same amount, if appropriate.
2. The Beneficiary implement controls and procedures to demonstrate compliance with all competitive bid requirements, as required by the Rules.

Beneficiary Response

WPSD evaluated the bids based [sic] provided by the vendors. WPSD evaluated the other bids and determined the other bids did not have a solution for loss of power in the building at the time. We still needed a solution that would provide that security and safety during such an outage. WPSD’s specifications established with the bid we [sic] were unintentionally different form [sic] the specifications set by the USAC. The specifications used were provided to best address the needs of the William Penn School District.

Moving forward WPSD School District has put in place procedures to verify its Bid Decisions will be in compliance [sic] with all Competitive Bidding Requirements. That all necessary requirements are listed on the 470.[sic] Further WPSD will ensure that the bids specs will match the expectation set by the USAC.

Finding No. 2, FCC Form 472 User Guide (April 2017)⁵– Beneficiary Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills

Condition

The Beneficiary over-invoiced the SLP for voice services funded under FRN 1799077876. The Beneficiary submitted a BEAR to request reimbursement for \$101,515 in undiscounted charges for eligible services; this amount represented the total amount committed by SLP for local and long-distance voice services under this FRN. However, the Beneficiary was only able to provide service provider bills to support \$14,638 in local and long-distance voice services charges, of which only \$12,954 represented charges for eligible services. Beneficiary representatives stated that the Beneficiary was in the process of transferring some of its schools to a new service provider in 2017; as a result, the actual costs were lower than were the anticipated costs.

Cause

The Beneficiary did not have adequate internal controls and procedures in place to ensure that it invoiced USAC based on its actual eligible service provider charges rather than on the amount committed by SLP, and that it retained all documentation to support the amounts invoiced.

Effect

The Beneficiary overstated its invoices to the SLP by \$26,568 (i.e., \$101,515 less \$12,954, or \$88,561, multiplied by the Beneficiary’s 30 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Voice Services (FRN 1799077876)	\$26,568	\$26,568

Recommendation

We recommend that:

1. USAC seek recovery of the amount identified in the Effect section above.
2. The Beneficiary establish and implement procedures to ensure that 1) it only requests reimbursement for amounts that service providers have actually invoiced and that are eligible for SLP funding; and 2) it retains documentation to support its BEARs, in compliance with the Rules.

Beneficiary Response

WPSD recognizes that it did not properly reconcile service provider bills as they pertained to the BEAR.

⁵ See also 47 C.F.R. § 54.516(a)-(b) (2016).

Moving forward WPSD has put in place a verification process to insure that SLP invoices are reconciled correctly and all documentation is maintained for supporting WPSD BEARs.

Finding No. 3, 47 C.F.R. § 54.523 (2016)⁶ – Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider

Condition

The Beneficiary did not consistently pay the non-discounted portion of its service providers’ bills for Internet access services under FRN 1799049039 within 90 days after the service providers delivered the services. Specifically, we noted the following untimely payments:

Payment Date	Bill Period	Amount
December 13, 2017	August 2017	\$2,869
May 24, 2018	September 2017	\$2,869
May 24, 2018	October 2017	\$2,869
May 24, 2018	November 2017	\$2,869

Cause

The Beneficiary’s representative stated that the individuals responsible for paying the service providers’ 2017 bills were no longer employed by the Beneficiary. The representative was therefore unable to explain why the Beneficiary did not make the payments in a timely manner.

Effect

This finding does not have a monetary impact because the Beneficiary did pay its non-discounted share. However, we noted a compliance finding due to the Beneficiary’s untimely payment of the non-discounted portion of the service providers’ bills for FRN 1799049039.

Recommendation

We recommend that the Beneficiary establish and implement adequate internal controls and procedures to ensure that it pays the non-discounted share of service provider bills within a reasonable timeframe (i.e., within 90 days of delivery of service).

Beneficiary Response

WPSD typically processed all payments due in 30 to 40 Days [sic]. This occurrence was unusual as WPSD was switching vendors and there were periods of uncertainty as to pay the correct amount to the appropriate vendor. This issue has been rectified as we have been using a consistent vendor and have established a consistent timely payment schedule.

⁶ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 24 (2004).

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.503 (a)-(c) (2016)	<p><i>(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.</i></p> <p><i>(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.</i></p> <p><i>(c) Posting of FCC Form 470. (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></p> <p><i>(i) A list of specified services for which the school, library, or consortium requests bids;</i></p> <p><i>(ii) Sufficient information to enable bidders to reasonably determine the needs of the applicant;</i></p>
1	47 C.F.R. § 54.511(a)(2016)	<p><i>(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.</i></p>
2	Schools and Libraries (E-rate) Program FCC Form 472	Column (12) – Total (Undiscounted) Amount for Service per FRN.

Finding	Criteria	Description
	(BEAR) User Guide, Pg. 17 (Rev. Apr. 2017)	<i>The total undiscounted amount represents the full cost of the services delivered on this FRN for the period indicated. You <u>must</u> deduct charges for any ineligible services, or for eligible services delivered for ineligible recipients or used for ineligible purposes. You should gather your customer bills and any other documentation you need to support your calculations.</i>
2	47 C.F.R. § 54.516(a)-(b) (2016)	<p><i>(a) Recordkeeping requirements—</i></p> <p><i>(1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase....</i></p> <p><i>(b) Production of records. Schools, libraries, consortia, and service providers shall produce such records at the request of any representative (including any auditor) appointed by a state education department, the Administrator, the FCC, or any local, state or federal agency with jurisdiction over the entity.</i></p>
3	47 C.F.R. § 54.523 (2016)	<i>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.</i>
3	Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6,	<p><u>Failure to Pay Non-discounted Share.</u></p> <p><i>We believe, based on USAC’s experience to date as Administrator, that a relatively short period – comparable to what occurs in commercial settings – should be established in which beneficiaries are expected to pay their non-discounted share after completion of delivery of service. In</i></p>

Finding	Criteria	Description
	Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 24 (2004).	<i>other contexts, companies refer payment matters to collection agencies if a customer fails to pay after several requests for payment. Accordingly, we clarify prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates our rule that the beneficiary must pay its share.</i>

COTTON & COMPANY LLP



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

Attachment O
SL2018LR002



Available for Public Use

Yeshivat Shaare Torah

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2018LR002

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Available for Public Use

EXECUTIVE SUMMARY

May 11, 2020

Moshe Benayon
Yeshivat Shaare Torah
1680 Coney Island Ave
Brooklyn, NY, 11230

Dear Mr. Benayon:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Yeshivat Shaare Torah (Beneficiary), Billed Entity Number (BEN) 199775, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

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

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Teleshia Delmar".

Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Recovery ¹ (B)	Recommended Recovery (A) - (B)	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.516(b) – Failure to Comply with the Requests of an Audit – The Beneficiary failed to provide documentation demonstrating compliance with the Rules.	\$273,132	\$0	\$143,305	\$273,132
Finding #2: 47 C.F.R. § 54.504(a)(1)(ix)-The Beneficiary Did Not Demonstrate it Selected the Most Cost-Effective Service Offering : The Beneficiary selected their service at a cost that was three times more that the average cost of that same service throughout their applicable state.	\$117,180	\$117,180	\$0	\$0
Finding #3: 47 C.F.R. § 54.505(b)(1)-Inadequate Discount Calculation Process: Documentation provided by the Beneficiary did not match amounts reported on the FCC Form 471.	\$ 42,316	\$32,236	\$10,080	\$10,080
Total Net Monetary Effect	\$432,628	\$149,416	\$153,385	\$283,212

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

USAC MANAGEMENT RESPONSE

USAC Management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC reminds the Beneficiary of their obligation to respond to auditor requests in accordance with the FCC's Fifth Report & Order (FCC 04-190) released on August 13, 2004 and available at (<https://docs.fcc.gov/public/attachments/FCC-04-190A1.pdf>). Please see page 43, (b), "Production of records", which states "Schools, libraries, and service providers shall produce such records at the request of any representative (including any auditor) appointed by a state education department, the Administrator, the FCC, or any local, state or federal agency with jurisdiction over the entity." Beneficiaries also certify on the FCC Form 471 that they will retain all documents necessary to demonstrate compliance with FCC rules regarding the application for, receipt of, and delivery of services, and that if audited, they will make such records available to USAC.

USAC also refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/applying-for-discounts/calculating-discounts/>
- <https://www.usac.org/e-rate/learn/faqs/calculating-discount-rates/>
- <https://www.usac.org/video/sl/10-comp-bidding/index.html>
- <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount	Commitment Adjustment Amount
2862578	\$117,180	\$206,100
2820857	\$8,485	\$11,760
2820862	\$7,560	\$7,560
2820864	\$10,080	\$10,080
2862572	\$0	\$37,632
2869199	\$5,760	\$5,760
2869236	\$2,160	\$2,160
2869266	\$2,160	\$2,160
Totals	\$153,385	\$283,212

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2015 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$88,855	\$0
Internet Access	\$215,388	\$124,740
Telecommunications	\$90,720	\$90,720
Voice	\$72,702	\$20,760
Total	\$467,665	\$236,220

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

The committed total represents four FCC Form 471 applications with thirteen Funding Request Numbers (FRNs). AAD selected nine FRNs of the thirteen FRNs², which represent \$452,707 of the funds committed and \$234,025 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2015 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a private school located in Brooklyn, New York that serves over 700 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

AAD obtained and examined documentation to determine whether the Beneficiary complied with the

² The FRNs included in the scope of this audit were: 2820857, 2820862, 2820864, 2862572, 2862578, 2869199, 2869236, 2869266 and 2822683.

Schools and Libraries Program Children’s Internet Protection Act (CIPA) requirements. Specifically, AAD obtained and evaluated the Beneficiary’s Internet Safety Policy. AAD obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether the Beneficiary properly selected a service provider that provided eligible services and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC’s website before signing contracts or executing month-to-month agreements with the selected service providers. AAD examined the service provider contracts to determine whether they were properly executed. We evaluated the services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit(s)

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.516(b)-Failure to Comply with the Requests of an Audit

CONDITION

On February 7, 2018, AAD contacted the Beneficiary to announce the audit for the services received for Funding Year 2016. AAD provided the Beneficiary with an audit announcement letter, which was accompanied by a document request list. The requested items on the list were due by February 28, 2018. The Beneficiary responded to AAD on February 13, 2018 and stated that it never utilized any of the FRNs subject to this audit and would like for those FRNs to be cancelled. AAD confirmed that the Beneficiary cancelled the applicable FRNs associated with the FCC Forms 471 #16105334 and 161053070 on February 20, 2018 and February 22, 2018, respectively. AAD subsequently elected to expand the scope of the audit to examine the services received for Funding Year 2015.

On March 26, 2018, AAD contacted the Beneficiary to announce the expansion of the original audit to include Funding Year 2015 and to schedule an entrance conference which was held on May 8, 2018. AAD requested to have all items noted on the document request list submitted by May 15, 2018. There was an extensive delay in receiving the outstanding documentation from the Beneficiary, and as a result, AAD issued a Final Document Request to the Beneficiary on June 14, 2018 with a final deadline to submit the documentation on June 20, 2018.

Upon receipt of the requested documentation, AAD noted some items that were still missing or needed further clarification. Among other items included on the document request list, AAD specifically requested copies of the contract for FRN 2862572; a reconciliation of the service provider bills submitted for FRNs 2820857, 2820862 and 2820864; and proof of payment for FRNs 2862578, 2820857, 2820862 and 2820864 to verify that the service providers billed the Beneficiary for the supported services and payments were made by the Beneficiary for their non-discounted portion in a timely manner. While the Beneficiary submitted copies of the aforementioned bills, they did not provide sufficient documentation or reconciliation to demonstrate that the bills received were associated with FRNs 2820857, 2820862 and 2820864. AAD also requested a reconciliation from the Service Provider on August 24, 2018, September 14, 2018 and December 5, 2018.

AAD inquired with the Beneficiary about the request for the payment details, reconciliation, and the applicable contract on August 28, 2018, while on a site visit and was told that the documents would be submitted. AAD has sent multiple emails to the Beneficiary through the Audit Inquiries Record (AIR) to display those items that are still open and need to be addressed. The Beneficiary has provided a response to many of the inquiries noted on the AIR, with the exception of the payment details and contract that have not been addressed. A request in the AIR was made on November 28, 2018 with an anticipated due date of December 5, 2018. Although the Beneficiary responded to a few other items on the document request list, the Beneficiary did not provide a response for the above missing items that were open on the list. On March 18, 2019, the Beneficiary submitted a reconciliation for FRNs 2820857 and 2820862, but there was no reconciliation provided for FRN 2820864.

AAD is required to conduct audits in accordance with Generally Accepted Government Auditing Standards (GAGAS),³ which require the auditors to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.⁴ Because the Beneficiary did not provide sufficient documentation to demonstrate that it: 1) entered into a valid contract or had a legally binding agreement with its Service Provider; 2) invoiced SLD for the correct amount and only for eligible services; and 3) paid its non-discounted share of services in a timely manner for FRNs 2862578, 2820857, 2820862 and 2820864, AAD is unable to conclude whether the invoiced amounts were properly calculated, as well as, whether the Beneficiary paid its non-discounted share of services for the FRNs mentioned above. As a result, AAD concluded that the Beneficiary did not provide adequate documentation to demonstrate that it complied with the Rules.

CAUSE

The Beneficiary did not have adequate documentation or data retention controls and procedures to ensure that documentation demonstrating its compliance with the Rules was properly retained. In addition, the Beneficiary did not demonstrate sufficient knowledge of the Rules governing its requirement to comply with an audit and produce such records upon request. The Beneficiary did not review the Rules in detail, including the relevant Rules that provided clarification regarding the production of records.

EFFECT

The monetary effect for this finding is \$273,132. This amount represents the total amount committed by SLP to the Beneficiary for FRNs 2862578, 2820857, 2820862, 2820864 and 2862572.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$143,305. This amount represents the total amount disbursed for FRNs 2862578, 2820857, 2820862 and 2820864. AAD also recommends USAC management issue a downward commitment adjustment of \$273,132 for FRN 2862572, 2862578, 2820857, 2820862 and 2820864. AAD recommends that the Beneficiary implement policies and procedures to ensure that the Beneficiary retains adequate records related to the application for, receipt and delivery of supported services for at least ten years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request.

BENEFICIARY RESPONSE

Attached you will find

- 1- copy of the contract FRN#2862578
- 2- Proof of payment
- 3- Reconciliation of service provided bills for FRN# 2862578

AAD RESPONSE

As noted in the Beneficiary's response, it provided additional documentation for FRN 2862578. AAD examined the documentation and determined it was not sufficient in addressing the audit finding as neither the contract nor the reconciliation for FRN 282578 was the subject of the finding. As stated in the condition, AAD

³ 47 C.F.R. § 54.702(n) (2011).

⁴ See U.S. Government Accountability Office, Government Auditing Standards, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.").

requested 1) a contract for FRN 2862572; 2) a reconciliation of the service provider bills submitted for FRNs 2820857, 2820862 and 2820864; and 3) proof of payment for FRNs 2862578, 2820857, 2820862 and 2820864. In addition, the proof of payment documentation submitted by the Beneficiary for FRN 2862578 did not support the total balance due on the service provider bill AAD sampled for testing. The additional documentation provided is the same documentation that was submitted during the audit process, which was deemed insufficient. The documentation provided consisted of two separate checks: one totaling \$10,000 and the other totaling \$7,000, and the associated transaction details. Based upon the transaction details of the submitted checks, these payments were allocated for “Books and Fixtures.”⁵ As such, AAD was unable to determine that the payments were made to cover the costs associated with the service provider bills for FRN 2862578.

In its response, the Beneficiary failed to provide the contract for FRN 2862572, a reconciliation for FRNs 2820857, 2820862 and 2820864, and proof of payment for FRNs 2820857, 2820862 and 2820864 as requested.

For reasons noted above, AAD’s position on this Finding remains unchanged.

Finding #2: 47 C.F.R. § 54.504(a)(1)(ix)-The Beneficiary Did Not Demonstrate it Selected the Most Cost-Effective Service Offering

CONDITION

AAD obtained and examined documentation, including the contract associated to the requested services, to determine whether the Beneficiary carefully considered all bids and selected the most cost-effective service offering using price of the eligible services as the primary factor for the internet access service for FRN 2862578. The Beneficiary received only one bid submitted by Brooklyn Supply Inc., for the Internet Access services requested. AAD determined through examination of the documentation and inquiries made with the Beneficiary, that the Beneficiary did not select the most cost-effective service offering.

The Beneficiary requested and received 50 Mbps of Ethernet service, priced at \$2,500 per unit for FRN 2862578. AAD performed an analysis, using the FCC Form 471 pricing information detailing the “*Item 21 Services and Costs*” for Funding Year 2015 for the state of New York, to assess whether the Beneficiary selected the most cost effective service offering.⁶ AAD sorted the Item 21 Services and Costs report by Service/Connection Subtype and Service/Connection Type to identify the Beneficiary’s service and all other Beneficiaries in New York receiving similar service type and speed. AAD calculated the average cost per unit for all Beneficiaries receiving the 50 Mbps of service and compared it to the per unit cost of the services the Beneficiary selected. AAD determined that the per unit cost of \$2,500 for the 50 Mbps of Ethernet service selected by the Beneficiary is more than three times the average per unit cost of \$762 for the entire state of New York.

⁵ Brooklyn Supply invoices (including bills, checks and transaction detail) received through Dropbox from Richard Bernstein, Consultant (June 11, 2018)

⁶ AAD utilized the 471_Detail_Report_Current_NY_FundingYear2015 as of January 31, 2018 to examine applicants receiving Internet access services in the state of New York during Funding Year 2015.

On October 25, 2018, AAD sent an inquiry through the Audit Inquiries Record (AIR) to the Beneficiary, requesting an understanding of how the Beneficiary determined that the price associated with the services received were cost effective. The Beneficiary stated that “[t]he costs for all services are compared to the costs of similar services that are posted on the Internet by other vendors providing services to the school's geographic area.” The response received from the Beneficiary did not include any documentation that supports the Beneficiary’s assertion or that a cost-effective service selection was made. “Even if an applicant receives only one bid in response to an FCC Form 470 and/or RFP, it is not exempt from our [FCC] requirement that applicants select cost-effective services... [and] there may be situations, however, where the price of services is so exorbitant that it cannot, on its face, be cost-effective.”⁷ Therefore, given the location of the Beneficiary, as well as, AAD’s analysis described above, AAD concludes that the Beneficiary did not select the most cost-effective service offering.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the competitive bidding process and selecting the most cost-effective service offering. The Beneficiary did not review the Rules in detail, including the relevant Rules that provided clarification on the competitive bidding requirements and selecting the most cost-effective service offering.

EFFECT

The monetary effect of this finding is \$117,180. This amount represents the total amount disbursed by SLP for the Beneficiary’s discounted portion of the services delivered for FRN 2862578.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$117,180 for FRN 2862578. The Beneficiary must implement controls and procedures to ensure it carefully considers the most cost-effective service offering. AAD also recommends that the Beneficiary familiarize itself with the Rules governing the competitive bidding process and selecting the most cost-effective service offering.

BENEFICIARY RESPONSE

Ethernet Service. Please note that this FRN 2862578 was for a **“dedicated and managed” line and we were not under a three year contract (it was a month to month)**. As mentioned in the attached memo⁸, we were quoted by Verizon for a one year contract for a dedicated line \$3500 to \$4000 per month. You can most likely verify with Verizon.

AAD RESPONSE

AAD acknowledges that the Beneficiary entered into a month to month agreement with Brooklyn Supply as stated in its response. The Beneficiary also stated in its response that in “the attached memo [refer to Exhibit I], [it was] quoted by Verizon for a one year contract for a dedicated line \$3500 to \$4000 per month...” AAD does not agree with the Beneficiary’s assertion that the quote could be verified with Verizon. AAD is unable to confirm the validity of that statement as no additional documentation was provided to support the

⁷ *Requests For Review of Decisions of the Universal Service Administrator by Ysleta Independent School District*, CC Docket No. 96-45 , Order, 18 FCC Rcd. 26407, 26431-32, para. 54 (2003).

⁸ See “Exhibit I” on pg. 17. Document dated 2/26/2015 provided via Box by Moshe Benayon, Executive Director on May 6, 2020.

Beneficiary's assertion. The memo attached to the Beneficiary's response, written by the Beneficiary's Office Manager, provides an explanation for their decision to select Brooklyn Supply as the provider for their Internet access services. The memo did not contain documentation from Verizon nor contact information such as a name or telephone number of the Verizon Representative to allow verification of the Beneficiary's assertion.

Subsequent to the initial audit request (February 2018), AAD issued several requests for supporting documentation and reminders regarding outstanding inquiries to the Beneficiary. On February 25, 2019, AAD sent an email to a representative of the Beneficiary that included a list of the potential exceptions and a request for any additional documentation that could aid in the removal of any of the aforementioned exceptions. In regards to the Finding in question, during the fieldwork phase of the audit, the Beneficiary failed to provide any documentation, including the memo currently attached to their response, illustrating that they attempted to seek quotes from various service providers. AAD conducted an exit conference with the Beneficiary on May 11, 2020 and was informed by the Beneficiary that due to the fact that they only received one bid, they contacted multiple service providers for quotes on the services that they were seeking. However, in the memo attached to their response there is no mention of any additional service providers with the exception of Verizon. GAGAS requires AAD to obtain sufficient, reliable and appropriate evidence to provide a reasonable basis for its findings and conclusions. Because the Beneficiary provided the documentation two years after numerous requests and the documentation does not provide enough information to allow AAD to verify its assertion, AAD is unable to rely on the documentation and does not consider the additional documentation to be sufficient. Thus, AAD'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 the Amounts Reported on the FCC Form 471

CONDITION

AAD obtained and examined documentation provided by the Beneficiary to determine whether the Beneficiary properly calculated its discount percentage rate for FRNs 2820857, 2820862, 2820864, 2862572, 2862578, 2869199, 2869236, and 2869266 for Funding Year 2015.

In its FCC Form 471, the Beneficiary identified 921 students enrolled and 720 students eligible for NSLP, resulting in a NSLP eligibility percentage of 78 percent. Thus, the Beneficiary's SLP discount rate based on this NSLP eligibility percentage is 90 percent for Category 1 services (excluding voice services) and 70 percent for voice services.

To substantiate its discount calculation in the FCC Form 471, the Beneficiary provided the *Comparison of Free/Reduced Lunch Eligibles to Enrollment Report* (The 2015 Eligibles to Enrollment Report), which it obtained from the New York State Education Department (NYSED) website. The 2015 Eligibles to Enrollment Report listed 737 students enrolled and 436 students eligible for NSLP for the Beneficiary as of October 2015, resulting in a NSLP eligibility percentage of 59 percent. The Beneficiary's SLP discount based on the 59 percent NSLP in the October 2015 Eligibles to Enrollment Report is 80 percent for Category 1 services and 60 percent for voice services. However, AAD noted that the 2015 Eligibles to Enrollment Report related to a period

subsequent to the date⁹ that the FCC Form 471 was submitted; therefore, the 2015 Eligibles to Enrollment Report could not have been used when submitting its FCC Form 471.

To recalculate the discount percentage based on the amounts available at the time of the FCC Form 471 submission, AAD obtained the *Comparison of Free/Reduced Lunch Eligibles to Enrollment* report for October 2014 from the NYSED website (The 2014 Eligibles to Enrollment Report). The 2014 Eligibles to Enrollment Report listed 504 students enrolled and 360 students eligible for NSLP, resulting in a NSLP eligibility percentage of 71 percent. As such, AAD determined that the Beneficiary’s NSLP percentage should be 71 percent, resulting in a SLP discount rate of 80 percent for Category 1 Internet access services and 60 percent for voice services.

AAD concludes that the total enrollment data and number of students eligible for NSLP listed in the 2014 or 2015 Eligibles to Enrollment Report did not match the amounts the Beneficiary reported on its FCC Form 471.

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 NYSED to maintain the amounts that would be used by the Beneficiary; The Beneficiary did not perform a proper quality assurance review to ensure the amounts from its Lunch Program database agreed to the enrollment information used within the FCC Form 471.

EFFECT

The monetary effect for this finding is \$42,316. This amount represents the difference between the amount committed by SLP based on a discount rate of 90 percent for Category 1 services and 70 percent for voice services and the amount that should have been committed based on the recalculated discount rate of 80 percent for Category 1 and 60 percent for voice, as follows:

Recalculation of the Committed Amounts Based on the Recalculated Discount Percentage								
				Original		Recalculated		Commitment Adjustments
FRN	Year	Service Type	Total Pre-Discounted Charges	Discount	Committed Amount	Discount	Committed Amount	Difference between the Original and Recalculated Amount
2820857	2015	Voice	\$16,800	70%	\$11,760	60%	\$10,080	\$1,680
2820862	2015	Internet Access	\$8,400	90%	\$7,560	80%	\$6,720	\$840
2820864	2015	Voice	\$14,400	70%	\$10,080	60%	\$8,640	\$1,440
2862572	2015	Voice	\$53,760	70%	\$37,632	60%	\$32,256	\$5,376
2862578	2015	Internet Access	\$229,000	90%	\$206,100	80%	\$183,200	\$22,900
2869199	2015	Telcomm Services	\$57,600	90%	\$51,840	80%	\$46,080	\$5,760
2869236	2015	Telcomm Services	\$21,600	90%	\$19,440	80%	\$17,280	\$2,160

⁹ FCC Form 471 Nos. 1036273, 1048376 and 1048380 was submitted and certified on April 13 and 16, 2015.

2869266	2015	Telcomm Services	\$21,600	90%	\$19,440	80%	\$17,280	\$2,160
Total Monetary Effect								\$42,316

Recalculation of the Disbursement Amounts Based on the Recalculated Discount Percentage								
FRN	Year	Service Type	Total Pre-Discounted Charges per Invoice	Original		Recalculated		Recovery
				Discount	Disbursed Amount	Discount	Disbursed Amount	Difference between the Original and Recalculated Amount
2820857	2015	Voice	\$12,122	70%	\$8,485	60%	\$6,061	\$1,212
2820862	2015	Internet Access	\$8,400	90%	\$7,560	80%	\$6,720	\$840
2820864	2015	Voice	\$14,400	70%	\$10,080	60%	\$7,200	\$1,440
2862572	2015	Voice	\$53,760	70%	\$0	60%	N/A	N/A
2862578	2015	Internet Access	\$130,200	90%	\$117,180	80%	\$104,160	\$13,020
2869199	2015	Telcomm Services	\$57,600	90%	\$51,840	80%	\$46,080	\$5,760
2869236	2015	Telcomm Services	\$21,600	90%	\$19,440	80%	\$17,280	\$2,160
2869266	2015	Telcomm Services	\$21,600	90%	\$19,440	80%	\$17,280	\$2,160
Total Recovery Amount								\$26,592

RECOMMENDATION

AAD recommends that USAC Management seek recovery of the \$26,592 portion disbursed for FRNs 2820857, 2820862, 2820864, 2862578, 2869199, 2869236 and 2869266. In addition, AAD recommends USAC management issue a downward commitment adjustment of \$42,316 for FRNs 2820857, 2820862, 2820864, FRN 2862572, 2862578, 2869199, 2869236 and 2869266. The Beneficiary must implement controls and procedures to ensure that a sufficient review of the underlying documentation is performed to substantiate the information reported on the FCC Form 471, prior to submitting the forms to SLP.

BENEFICIARY RESPONSE

We acknowledge that we made an error; it was innocent error, because USAC changed its rule for funding year 2015. And at the time we filed the form 471 we were not aware of the rule change. Prior to funding year 2015 if you had information of over 50% of the student body you could project it for the entire school body. For the funding year 2015 USAC changed the rules that any student you do not have information should be consider non eligible.

AAD RESPONSE

AAD acknowledges the Beneficiary’s admittance of the error made. The Beneficiary states in its response that “it was an innocent error; because USAC changed its rule for funding year 2015. And at the time we filed the form 471 we were not aware of the rule change.” AAD notes that for funding year 2015, the Beneficiary utilized a consultant. The rule states that “the terms “school, library, or consortium” include all individuals who are on the governing boards of such entities (such as members of a school committee), and all employees, officers, representatives, agents, consultants or independent contractors of such entities involved on behalf

of such school, library, or consortium with the Schools and Libraries Program of the Universal Service Fund (E-rate Program)... as well as any staff of such entities responsible for monitoring compliance with the E-rate Program¹⁰." As such, it is the responsibility of both the Beneficiary and the consultant to monitor compliance with the E-rate Program and any changes that may occur. For this reason, AAD's position on this finding remains unchanged.

¹⁰ 47 C.F.R. § 54.503(d)(2)(i) (2014).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.516(b) (2014).	Schools, libraries, consortia, and service providers shall produce such records at the request of any representative (including any auditor) appointed by a state education department, the Administrator, the FCC, or any local, state or federal agency with jurisdiction over the entity.
#1	47 C.F.R. § 54.702(n) (2014).	When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards. In administering the Universal Service Fund, the Administrator shall also comply with all relevant and applicable federal financial management and reporting statutes.
#2	47 C.F.R. § 54.504(a)(1)(ix) (2014).	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. § 54.511(a) (2014).	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.
#2	<i>Requests For Review of Decisions of the Universal Service Administrator by Ysleta Independent School District, CC Docket No. 96-45 , Order, 18 FCC Rcd. 26407, 26431-32, para. 54 (2003).</i>	Even if an applicant receives only one bid in response to an FCC Form 470 and/or RFP, it is not exempt from our requirement that applicants select cost-effective services. The Commission has not, to date, enunciated bright-line standards for determining when particular services are priced so high as to be considered not cost-effective under our rules. There may be situations, however, where the price of services is so exorbitant that it cannot, on its face, be cost-effective. For instance, a proposal to sell routers at prices two or three times greater than the prices available from commercial vendors would not be cost effective, absent extenuating circumstances. We caution applicants and service providers that we will enforce our rules governing cost-effectiveness in order to limit waste in the program.
#3	47 C.F.R. § 54.505(b)(1) (2014).	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

Finding	Criteria	Description
		discount matrix to set a discount rate for the supported services purchased by all schools within the school district. Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.
#3	47 C.F.R. § 54.503(d)(2)(i) (2014).	The terms “school, library, or consortium” include all individuals who are on the governing boards of such entities (such as members of a school committee), and all employees, officers, representatives, agents, consultants or independent contractors of such entities involved on behalf of such school, library, or consortium with the Schools and Libraries Program of the Universal Service Fund (E-rate Program), including individuals who prepare, approve, sign or submit E-rate applications, or other forms related to the E-rate Program, or who prepare bids, communicate or work with E-rate service providers, E-rate consultants, or with USAC, as well as any staff of such entities responsible for monitoring compliance with the E-rate Program

EXHIBIT I

Memo

Date: 2/26/2015

To: Rabbi Franco

From: Ryzel Tyberg

Re: Internet Access and PTP

This memo is to explain the decision to select Brooklyn Supply for the school's dedicated internet and point to point services for the four eligible locations.

Brooklyn Supply was the only service provider that submitted a bid for the school's dedicated internet and ptp services. We found the bid to be well priced, specially that they did not require the school to sign a three year contract. We were not successful in obtaining any additional bid, however I was quoted a much higher price by Verizon for dedicated services if we don't sign a three year contract. The price that we were quoted by Verizon was between \$3500 to \$4000 for each dedicated circuit on a One year contract.

Brooklyn Supply also has a reputation for being honest and reliable.

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: November 2020

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Bethany Community Middle School Attachment P	4	<ul style="list-style-type: none"> <u>Lack of Documentation – Beneficiary Did Not Substantiate the Competitive Bidding Process</u> – The Beneficiary was unable to provide sufficient documentation to support that it had evaluated the overall cost-effectiveness of each bid when awarding a contract for internal connections. 	\$26,338	\$30,416	\$26,338	\$26,338	N
Bristol Bay Borough School District Attachment Q	1	<ul style="list-style-type: none"> No Significant Findings 	\$693,893	\$0	\$0	\$0	N
Caddo Parish School District Attachment R	1	<ul style="list-style-type: none"> No Significant Findings 	\$4,795,905	\$390	\$390	\$0	N
CNMI Public School System Attachment S	2	<ul style="list-style-type: none"> No Significant Findings 	\$859,314	\$4,286	\$4,286	\$0	N

Available For Public Use

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Delaware County IU RWAN Consortium Attachment T	2	• No Significant Findings	\$260,463	\$0	\$0	\$0	N
Monroe County Library System Attachment U	1	• No Significant Findings	\$502,313	\$0	\$0	\$0	N
Skyline Education, Inc. Attachment V	3	• No Significant Findings	\$198,710	\$13,881	\$13,881	\$13,881	Y
Tuscaloosa County School District Attachment W	3	• <u>Untimely Implementation of Non-recurring Services</u> – Equipment was stored at the Beneficiary’s Central Office and was not installed by the service implementation deadline.	\$1,930,443	\$113,000	\$106,440	\$0	N
WiseNet Attachment X	1	• No Significant Findings	\$2,018,622	\$9,117	\$9,117	\$9,117	N
Total	18		\$11,286,001	\$171,090	\$160,452	\$49,336	

Available For Public Use

* The Monetary Effect amount represents the actual dollar effect of the finding(s) without taking into account any overlapping exceptions between findings. Thus, the total Monetary Effect may exceed the Amount of Support that was disbursed to the Beneficiary.

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

ATTACHMENT P

SL2019BE029

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

BETHANY COMMUNITY MIDDLE SCHOOL

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

USAC AUDIT No. SL2019BE029



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
BETHANY COMMUNITY MIDDLE SCHOOL
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

November 4, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Bethany Community Middle School (Beneficiary), Billed Entity Number (BEN) 16057876, 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 Comptroller General of the United States (2018 Revision). 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, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 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	Downward Commitment Adjustment
Finding No. 1, 47 C.F.R. § 54.511(a) (2016) – Lack of Documentation – Beneficiary Did Not Substantiate the Competitive Bidding Process. The Beneficiary was unable to provide sufficient documentation to support that it had evaluated the overall cost-effectiveness of each bid when awarding a contract for internal connections.	\$26,338	\$0	\$26,338	\$26,338
Finding No. 2, 47 C.F.R. § 54.516(a) (2016) – Missing Equipment and Inaccurate Fixed Asset List. The Beneficiary’s Fixed Asset List (FAL) included inaccurate information and the Beneficiary was unable to locate all equipment purchased with SLP funding.	\$315	\$315	\$0	\$0

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

² The overlapping recovery column represents disbursements that have already been recommended for recovery in a previous finding and therefore should not be recovered as part of the current finding unless funds are not recovered for the previous overlapping 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.

Audit Results	Monetary Effect ¹	Overlapping Recovery ²	Recovery Action ³	Downward Commitment Adjustment
Finding No. 3, 47 C.F.R. § 54.502(b) (2016) – Beneficiary Inaccurately Calculated Category Two Budget. The Beneficiary used inaccurate enrollment numbers in calculating its Funding Year (FY) 2017 Category Two (C2) budget and did not maintain appropriate supporting documentation.	\$0	\$0	\$0	\$0
Finding No. 4, 47 C.F.R. § 54.505(b)(1) (2016) – Beneficiary Inaccurately Calculated Its Discount Rate. The Beneficiary did not correctly report its eligibility and enrollment numbers for discount rate calculation purposes and did not maintain support for the figures that it reported in its FCC Form 471.	<u>\$3,763</u>	<u>\$3,763</u>	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$30,416</u>	<u>\$4,078</u>	<u>\$26,338</u>	<u>\$26,338</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC also refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>
- <https://www.usac.org/e-rate/applicant-process/before-youre-done/transfer-of-equipment/>
- <https://www.usac.org/e-rate/applicant-process/applying-for-discounts/category-two-budget/>
- <https://www.usac.org/e-rate/applicant-process/applying-for-discounts/calculating-discounts/>

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount	Commitment Adjustment Amount
1799099050	\$26,338	\$26,338

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for FY 2017. The Beneficiary is a public charter school located in Reidsville, North Carolina that serves more than 245 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for FY 2017 as of December 27, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$26,338	\$26,338
Total	\$26,338	\$26,338

The “amount committed” total represents one FCC Form 471 *Description of Services Ordered and Certification* application submitted by the Beneficiary for FY 2017 that resulted in one Funding Request Number (FRN). We selected the FRN for testing. This FRN represents \$26,338 of the funds committed and \$26,338 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, direct

observation, and inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

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

B. Competitive Bid Process

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

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 474, *Service Provider Invoice (SPI)*, and corresponding service provider bills were consistent with the terms and specifications of the service provider agreement. 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 to determine whether it was 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 for which it had requested funding and evaluated the equipment 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 service provider submitted to USAC for reimbursement and performed procedures to determine whether the service provider had properly invoiced USAC. Specifically, we reviewed invoices associated with the SPI forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the SPI forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreement and were eligible in accordance with the SLP Eligible Services List.

Detailed Audit Findings

Finding No. 1 – 47 C.F.R. § 54.511(a)⁴ (2016) – Lack of Documentation – Beneficiary Did Not Substantiate the Competitive Bidding Process

Condition

The Beneficiary was unable to provide sufficient documentation to support that it had evaluated the overall cost-effectiveness of each bid when awarding the contract for internal connections. The Beneficiary requested and received funding for internal connections under FRN 1799099050. The Beneficiary used a state master contract to procure these services, and stated that it prepared a mini-bid evaluation to support its selection of a service provider from two eligible bidders that were part of the state master contract. The mini-bid evaluation documentation, however did not contain a documented comparison of individual line items and prices between the bidders. The Beneficiary could thus not demonstrate that it properly evaluated the cost of eligible goods and services as the primary factor in selecting the successful bidder.

Cause

The Beneficiary did not demonstrate sufficient knowledge or internal processes to ensure that it followed the Rules and SLP program requirements governing the competitive procurement process.

Effect

The Beneficiary was unable to justify the cost-effectiveness of the award for internal connections under FRN 1799099050. As a result, we determined that the monetary effect of this finding is the full amount disbursed as of the audit announcement date.

FRN	Monetary Effect	Recommended Recovery	Downward Commitment Adjustment
1799099050	\$26,338	\$26,338	\$26,338
Total	\$26,338	\$26,338	\$26,338

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above, and issue a downward commitment adjustment for the same amount, if appropriate.
2. The Beneficiary implement controls to ensure that it maintains records of its evaluation of all vendor submissions to support its compliance with competitive bidding requirements.

⁴ See also 47 C.F.R. § 54.503(c)(2)(ii)(B) (2016) and 47 C.F.R. § 54.516(a) (2016).

Beneficiary Response

All NCDPI State Master Contracts vendor’s (sic) pricing was posted on the DPI website. Although there was no documentation to prove the pricing lists were reviewed, the price lists support the vendor that was chosen as having the best pricing. All other factors were rated as equal. This was BCS’s first time applying for E-rate and the former Assistant Principal and the former E-rate Admin were inexperienced in document preparation. In the future, documentation will show providers that are contacted.

Auditor Response

The Beneficiary has not provided evidence to support its assertion that the best price was obtained. As noted in the Beneficiary Response, no documentation was maintained to demonstrate a line item comparison in support of the evaluation of pricing. The Beneficiary’s mini-bid evaluation indicates that it evaluated each vendor’s eligible costs based on the vendor’s listed discount percentage off Manufacturer’s Suggested Retail Price (MSRP), not on individual prices. Because line item pricing can vary significantly within each bid, a line item comparison is necessary to determine and document the overall best pricing.

Finding No. 2 – 47 C.F.R. § 54.516(a) (2016) – Missing Equipment and Inaccurate Fixed Asset List

Condition

The Beneficiary’s FAL included inaccurate information. Specifically, we conducted a site visit to physically inspect equipment that the Beneficiary purchased and installed under FRN 1799099050. We performed our testing using the Beneficiary’s FAL, which includes a description, serial number, and physical location for each of the Beneficiary’s fixed assets.

During our site visit, the Beneficiary was unable to locate the following access point for our inspection, as the physical location included in the FAL was incorrect:

FRN	Item/Model	Serial Number	Total Undiscounted Cost
1799099050	Meraki MR42	Q2KD-NXS3-83JN	\$451
Total			\$451

We also noted two instances in which the FAL listed the incorrect FRN for an item. The FAL indicated that the Beneficiary had procured all of the access points and switches using FRN 1799099050; however, we identified two items that the Beneficiary had actually procured using funding from a different year, as follows:

Item/Model	Serial Number
Meraki MS225-48FP	Q2KW-KSYZ-SGKS

Item/Model	Serial Number
Cisco Catalyst 3750 Series PoE-48	FDO1346R26K

In addition, we noted that the FAL included the incorrect model number for one switch, as follows:

FRN	Item/Model per FAL	Correct Item/Model	Serial Number
1799099050	Meraki MS225-48FP	Meraki MS250-48FP	Q2KD-NXS3-83JN

Cause

The Beneficiary did not have adequate processes in place to ensure that it maintained accurate E-rate inventory records, as required by the Rules.

Effect

The Beneficiary was unable to demonstrate that all equipment purchased with SLP funding was properly installed and being used for its intended purpose. The monetary effect of this finding is \$315 (\$451 cost of the missing access point discounted by the Beneficiary’s 70 percent discount rate). We are recommending recovery of this amount, as the Beneficiary was unable to locate the equipment.

FRN	Monetary Effect	Recommended Recovery
1799099050	\$315	\$315
Total	<u>\$315</u>	<u>\$315</u>

In addition, without accurate E-rate inventory records, the Beneficiary is unable to ensure that it is complying with the Rules regarding asset records of equipment purchased with SLP funding.

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement stronger controls and procedures to ensure that it maintains an accurate FAL, as well as accurate inventory-tracking records sufficient to verify the location of SLP-funded equipment for a period of at least ten years after purchase.

Beneficiary Response

Equipment was received during the move-in process to the new building. There was loaner equipment, equipment from the older building along with equipment that was received during the moving day. Procedures have been put into place to remedy future occurrences.

Finding No. 3 – 47 C.F.R. § 54.502(b)⁵ (2016) – Beneficiary Inaccurately Calculated Category Two Budget

Condition

The Beneficiary used inaccurate enrollment numbers when completing its FY 2017 FCC Form 471 for funding under FRN 1799099050 and did not maintain documentation to indicate how it arrived at the inaccurate enrollment numbers. We compared the Beneficiary’s enrollment numbers from the North Carolina National School Lunch Program (NSLP) report to the figures that the Beneficiary reported in its FCC Form 471. We determined that the reported enrollment numbers were not accurate. The inaccurate numbers caused the Beneficiary to misstate its five-year C2 budget, as shown in the table below.

FCC Form 471 Enrollment	Enrollment per North Carolina NSLP Report	Approved USAC C2 Budget	Recalculated C2 Budget
248	270	\$38,060	\$41,437

Cause

The Beneficiary did not have sufficient internal controls in place to ensure that the enrollment data it submitted to USAC was based on accurate and properly documented information. In addition, the Beneficiary did not demonstrate sufficient knowledge of the Rules governing the completion of the FCC Form 471.

Effect

We did not identify a monetary effect, as total SLP C2 funding did not exceed the Beneficiary’s recalculated C2 budget. However, the available budget for future years will rely on the Beneficiary providing accurate enrollment figures in its FCC Form 471 submission, and errors in the underlying data could put the Beneficiary at risk of exceeding its authorized funding in the future.

Recommendation

We recommend that the Beneficiary implement controls to ensure that it provides USAC with accurate and properly supported enrollment data.

Beneficiary Response

At the time of the application certification, the portal continued to reflect outdated enrollment and eligible FRL [(Free and Reduced Lunch)] numbers. The portal also indicated that the school does a “survey” method of reporting eligibility for FRL. The NCDPI State Valid File

⁵ See also 47 C.F.R. § 54.516(a) (2016).

numbers were not entered for BCS. (Former BCS Assistant Principal and Former E-rate Admin misunderstood the instructions regarding the updating of the EPC portal. It was the first year the school participated in the E-rate Program.) A memo dated September 7, 2017 signed by then Assistant Principal stated the school's data was an enrollment of 270 students with 69 eligible for FRL, yielding a 26% percentage. With a rural location, the E-rate discount should have reflected 60% Category 2 Discount.

Subsequent emails between Coordinators and the Assistant Principal indicated the belief that USAC would issue an RFCDL. The Principal, was not copied on the emails. The Principal will review the information and all supporting documentation before submission.

Finding No. 4 – 47 C.F.R. § 54.505(b)(1)⁶ (2016) – Beneficiary Inaccurately Calculated Its Discount Rate

Condition

The Beneficiary did not correctly report its eligibility and enrollment numbers for discount rate calculation purposes and did not maintain support for the figures that it reported in its FCC Form 471 request for funding under FRN 1799099050. As a result, the Beneficiary incorrectly calculated its discount rate for FY 2017 internal connections services.

We compared the Beneficiary's enrollment numbers from the North Carolina NSLP report to the figures that the Beneficiary reported in its FCC Form 471. We determined that the documentation provided did not consistently support the enrollment numbers and NSLP percentages included in the FCC Form 471. The following table provides a summary of the differences:

Data Comparison	FCC Form 471 Data	Corrected Data
Eligible Students	102	68
Enrolled Students	248	270
Eligibility Rate	41.13%	25.19%
Discount Rate*	70%	60%

*Per USAC's *Approved Discount Rate Table for FY 2017 Services*.

Cause

The Beneficiary did not have sufficient internal controls in place to ensure that enrollment and eligibility data submitted to USAC was based on current and accurate information. In addition, the Beneficiary did not demonstrate sufficient knowledge of the Rules governing the completion of the FCC Form 471.

⁶ See also 47 C.F.R. § 54.516(a) (2016).

Effect

The Beneficiary used outdated and inaccurate data when calculating its discount rate on its FCC Form 471. We recalculated the Beneficiary’s discount rate using the corrected data and determined that the Beneficiary’s inaccurate calculations caused it to receive funding for internal connections at a 70 percent discount rate, rather than at the 60 percent discount rate for which it would have been eligible if it had accurately reported its enrollment figures.

The monetary effect of this finding is \$3,763 (\$37,626 pre-discount costs multiplied by the 10 percent difference between the claimed discount rate and the supported discount rate).

FRN	Monetary Effect	Recommended Recovery
1799099050	\$3,763	\$3,763
Total	\$3,763	\$3,763

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement procedures to ensure that it accurately enters data into its FCC Form 471, maintains data integrity, and properly calculates discount rates.

Beneficiary Response

At the time of the application certification, the portal continued to reflect outdated enrollment and eligible FRL numbers. The portal also indicated that the school does a “survey” method of reporting eligibility for FRL. The NCDPI State Valid File numbers were not entered for BCS. (Former BCS Assistant Principal and Former E-rate Admin misunderstood the instructions regarding the updating of the EPC portal. It was the first year the school participated in the E-rate Program.) A memo dated September 7, 2017 signed by then Assistant Principal stated the school’s data was an enrollment of 270 students with 69 eligible for FRL, yielding a 26% percentage. With a rural location, the E-rate discount should have reflected 60% Category 2 Discount. The Principal will review the eligibility, enrollment numbers, and all supporting documentation for the FCC Form 471 before it is submitted.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.511(a) (2016)	<i>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-</i>

Finding	Criteria	Description
		<i>discount prices submitted by providers, but price should be the primary factor considered.</i>
1	47 C.F.R. § 54.503(c) (2)(ii)(B) (2016)	<i>All bids submitted for eligible products and services will be carefully considered, with price being the primary factor, and the bid selected will be for the most cost-effective service offering consistent with §54.511.</i>
1,2,3,4	47 C.F.R. § 54.516(a) (2016)	<i>Recordkeeping requirements—(1) Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.</i>
3	47 C.F.R. § 54.502(b) (2016)	<p><i>Funding years 2015-2019. Libraries, schools, or school districts with schools that receive funding for category two services in any of the funding years between 2015 and 2019 shall be eligible for support for category two services pursuant to paragraphs (b)(1) through (6) of this section.</i></p> <p><i>(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).</i></p> <p><i>(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</i></p>

Finding	Criteria	Description
		<p><i>the maximum budget based on student enrollment the following funding year....</i></p> <p><i>(5) Requests. Applicants shall request support for category two services for each school or library based on the number of students per school building or square footage per library building. Category two funding for a school or library may not be used for another school or library. If an applicant requests less than the maximum budget available for a school or library, the applicant may request the remaining balance in a school's or library's category two budget in subsequent funding years of a five year cycle. The costs for category two services shared by multiple eligible entities shall be divided reasonably between each of the entities for which support is sought in that funding year.</i></p>
4	47 C.F.R. § 54.505(b)(1) (2016)	<p><i>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.</i></p>

COTTON & COMPANY LLP



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

ATTACHMENT Q

SL2019LS005

Available For Public Use

Bristol Bay Borough School District

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2019LS005

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EXECUTIVE SUMMARY

August 13, 2020

Bill Hill
Superintendent
Bristol Bay Borough School District
2 School Road North,
Naknek, Alaska 99633

Dear Bill Hill,

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Bristol Bay Borough School District (Beneficiary), Billed Entity Number (BEN) 145594 using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules on the audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one finding discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in cursive script that reads "Teleshia Delmar".

Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect (A)	Recommended Recovery (A) - (B)	Recommended Commitment Adjustment
Finding #1: 47 CFR § 54.520(h) - The Beneficiary failed to provide sufficient supporting documentation that the public meeting to discuss CIPA occurred.	\$0	\$0	\$0
Total Net Monetary Effect	\$0	\$0	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified. USAC also refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/starting-services/cipa/>
- <https://www.usac.org/e-rate/learn/webinars/> (Starting Services: FCC Form 486)

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

The purpose of the audit was to determine whether the Bristol Bay Borough School District complied with the Rules.

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Bristol Bay Borough School District for Funding Year 2018.

Service Type	Amount Committed	Amount Disbursed
Voice Services	\$1,909	\$56
Internet Access	\$751,529	\$691,932
Internal Connections	\$1,905	\$1,905
Total	\$755,343	\$693,893

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

The committed total represents five FCC Form 471 applications with five Funding Request Numbers (FRNs). AAD selected one FRN of the six FRNs¹, which represent \$755,342 of the funds committed and \$691,932 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2018 applications submitted by Bristol Bay Borough School District.

BACKGROUND

The Beneficiary is a School District located in Naknek, Alaska that serves over 100 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

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

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether the Beneficiary properly selected a service provider that provided eligible services and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before [signing contracts or executing month-to-month agreements] with the selected service providers. AAD examined the service provider contracts to determine whether they were properly executed.

C. Invoicing Process

AAD obtained and examined invoices for which payment was disbursed by USAC to determine whether the equipment and services identified on the FCC Form 472 Billed Entity Applicant Reimbursements (BEARs), FCC Form 474 Service Provider Invoices (SPIs) and corresponding service provider bills were

¹ The FRN included in the scope of this audit was FRN 1899069657.

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

D. Beneficiary Location

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

Finding #1: 47 CFR § 54.520(h) - Failure to Comply with CIPA Requirements

CONDITION

AAD obtained and examined documentation to determine whether the Beneficiary complied with the Children's Internet Protection Act (CIPA) requirements for FRN 1899069657. On the Beneficiary's FCC Form 486, the Beneficiary certified that it complied with the CIPA requirements as codified in 47 U.S.C. § 254(h) and (i). However, to comply with CIPA requirements, the Beneficiary, a public school district, must hold at least one public hearing or meeting to address the proposed internet safety policy (ISP) and provide reasonable notice to the public.² To support the public notice requirement, the Beneficiary provided AAD with documentation (i.e., a slip) that was sent home with each student that announced the meeting to discuss the policy. However, because the Beneficiary is a public school district, the Beneficiary must provide the public with reasonable notice and an opportunity to respond and make inquiries. AAD determined that the Beneficiary's distribution method did not provide the public with reasonable notice.

In addition, the Beneficiary did not provide sufficient supporting documentation to demonstrate that the public meeting was held. The Beneficiary provided an email, dated August 22, 2017, that referenced a "HS Tech Orientation" in the subject line and included a list of people that did not attend the meeting but the documentation does not include details explaining what was discussed at the meeting and who attended the meeting. The Beneficiary also provided another email between school's staff representatives, dated September 22, 2016, that included a request to have the advertisement of the meeting (i.e., the slip) electronically posted. The email also noted that the meeting was scheduled for September 26, 2016 at 5:30 in the library. However, the documentation provided does not demonstrate that the meeting occurred in 2016 or 2017.

AAD is required to conduct audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), which requires AAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.³ Because the Beneficiary did not provide adequate documentation demonstrating that (a) a public meeting or hearing was held to discuss the ISP and (b) reasonable public notice for the public meeting or hearing, AAD concludes that the Beneficiary was not compliant with all of the CIPA requirements.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing CIPA. In addition, the Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records that demonstrate that the Beneficiary complied with CIPA.

EFFECT

There is no monetary effect associated with this finding.

² See 47 C.F.R. § 54.520(h).

³ 47 C.F.R. § 54.702(n) (2018). See also U.S. Government Accountability Office, Government Auditing Standards, GAO-18-568G, para. 8.90 (Rev. Dec. 2018) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions.").

RECOMMENDATION

AAD recommends that the Beneficiary holds a public meeting to discuss the ISP utilized by the Beneficiary in compliance with CIPA requirements and that the Beneficiary provides reasonable notice of the meeting using a distribution method that is available to the public. In addition, AAD recommends that the Beneficiary visit USAC's website at <https://www.usac.org/sl/applicants/step05/cipa.aspx> to become familiar with the Rules governing the CIPA requirements and ensure it has designated personnel on staff knowledgeable of the Rules to monitor compliance with the Rules and implement data retention policies and procedures to ensure records demonstrating CIPA requirements are retained.

BENEFICIARY RESPONSE

The Bristol Bay Borough School District will ensure that correct protocols will be adhered to and will also ensure that assigned district staff be knowledgeable and enforce CIPA compliance rules. This will include proper notice to parents via the district website, posters, etc., as well as a sign in sheet for parents who attended the annual parent meeting. These documents will be retained for the required 10 year time frame.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.520(h) (2018)	A school or library shall provide reasonable public notice and hold at least one public hearing or meeting to address the proposed Internet safety policy.
#1	47 C.F.R. § 54.520(c)(1)(i)(2018)	<p><i>Certifications required under 47 U.S.C. 254(h) and (l) –</i></p> <p>(1) <i>Schools.</i> The billed entity for a school that receives discounts for Internet access or internal connections must certify on FCC Form 486 that an Internet safety policy is being enforced. If the school is an eligible member of a consortium but is not the billed entity for the consortium, the school must certify instead on FCC Form 479 (“Certification to Consortium Leader of Compliance with the Children’s Internet Protection Act”) that an Internet safety policy is being enforced.</p>
#1	47 C.F.R. § 54.702(n)(2018)	(n) The Administrator shall account for the financial transactions of the Universal Service Fund in accordance with generally accepted accounting principles for federal agencies and maintain the accounts of the Universal Service Fund in accordance with the United States Government Standard General Ledger. When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards. In administering the Universal Service Fund, the Administrator shall also comply with all relevant and applicable federal financial management and reporting statutes.

ATTACHMENT R

SL2019BE050

Available For Public Use

*Caddo Parish School District
Audit ID: SL2019BE050
(BEN: 139307)*

*Performance audit for the Universal Service Schools and
Libraries Program Commitments and Disbursements
related to Funding Year 2017 as of October 8, 2019*

Prepared for: Universal Service Administrative Company

As of Date: November 5, 2020

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

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

EXECUTIVE SUMMARY

November 5, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Ms. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to the Caddo Parish School District, Billed Entity Number (“BEN”) 139307, (Beneficiary) for disbursements of \$4,795,905 and commitments of \$5,191,120, made from the federal Universal Service Schools and Libraries Program related to the twelve-month period ended June 30, 2018, as of October 8, 2019 (hereinafter “Funding Year 2017”). Our work was performed during the period from November 7, 2019 to November 5, 2020, and our results are as of November 5, 2020.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objective of our work was to evaluate the Beneficiary’s compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program (“E-rate Program”) set forth in 47 C.F.R. Part 54 of the Federal Communications Commission’s (“FCC”) Rules as well as other program requirements (collectively, the “Rules”) that determined the Beneficiary’s eligibility and resulted in commitments of \$5,191,120 and disbursements of \$4,795,905 made from the E-rate Program related to Funding Year 2017. Compliance with the Rules is the responsibility of the Beneficiary’s management. Our responsibility is to evaluate the Beneficiary’s compliance with the Rules based on our audit.

As our report further describes, KPMG identified one finding as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on the results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to Funding Year 2017 were \$ 390 higher than they would have been had the amounts been reported properly.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated November 5, 2020.

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



Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
BEAR	Billed Entity Applicant Reimbursement
BEN	Billed Entity Number
C.F.R.	Code of Federal Regulations
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 472	Billed Entity Applicant Reimbursement Form
FCC Form 474	Service Provider Invoice Form
FRN	Funding Request Number
Funding Year 2017 or FY 2017	The twelve-month period from July 1, 2017 to June 30, 2018 during which E-rate Program support is provided (as of October 8, 2019)
MIBS	Managed Internal Broadband Services
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery
<u>SL2019BE050-F01: Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills</u> – The Service Provider over invoiced SLP by incorrectly calculating the discounted amounts stated on its SPI form.	\$390	\$390
Total Net Monetary Effect	\$390	\$390

USAC MANAGEMENT RESPONSE

USAC acknowledges the Audit Results stated above. On September 4, 2020 the service provider returned the improperly disbursed funds to USAC so there is no recovery. USAC will request the Service Provider provide copies of policies and procedures implemented to address the issue identified. USAC also refers the Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>
- <https://www.usac.org/e-rate/learn/webinars/> Click “The E-rate Invoicing Process”

USAC records show the Service Provider is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Service Provider to review the News Brief as it contains valuable information about the E-rate Program.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

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

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

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

Beginning in Funding Year 2015, the discount rate for all voice services is reduced by 20%, and reduced further by an additional 20% every subsequent funding year until Funding Year 2019 when voice services will no longer be funded through the E-rate Program. The discount rate reduction for voice services in Funding Year 2017 is 60%. This reduction applies to all expenses incurred for providing telephone services and increasing circuit capacity for providing dedicated voice services.

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$5,191,120 and disbursements of \$4,795,905 made for Funding Year 2017.

Beneficiary Overview

Caddo Parish School District (BEN# 139307) is a school district located in Shreveport, Louisiana that served over 42,000 students during FY 2017.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2017 by service type:

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$636,602	\$544,090
Voice Services	\$40,397	\$31,122
Internal Connections	\$4,514,121	\$4,220,693
Total*	\$5,191,120	\$4,795,905

**Source: USAC*

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2017. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2017 as of October 8, 2019.

The committed total represents six FCC Form 471 applications with eleven FRNs. We selected seven FRNs, which represent \$5,181,844 or 99.82% of the total funds committed and \$4,795,905 or 100% of the total funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2017 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of \$5,191,120 and disbursements of \$4,795,905 made from the E-rate Program for Funding Year 2017. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2017 and disbursements received, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, physical inventory of equipment purchased, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for Funding Year 2017.

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

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

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary and received by the Beneficiary for Funding Year 2017. The procedures conducted during this performance audit include the following:

1. Planning and Assessment

In collaboration with USAC, we assessed Beneficiary criteria to perform audit planning activities, including sampling, site visit considerations and audit approach. Using an agreed upon sampling methodology, we selected seven FRNs in scope for this audit.

2. Application Process

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

3. Competitive Bid Process

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

4. Calculation of the Discount Percentage

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

5. Invoicing Process

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

6. Site Visits

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

7. Reimbursement Process

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

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

8. Record Keeping

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

9. Final Risk Assessment

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

RESULTS

KPMG’s performance audit results include listing of a finding, recommendation and Beneficiary’s response with respect to the Beneficiary’s compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2017 commitments and disbursements made from the E-rate Program.

Finding, Recommendation and Beneficiary Response

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

Finding No. **SL2019BE050-F01: Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills**

Condition For FRN 1799032793 (SPI forms 2764330, 2870857, and 2870869), the service provider (AT&T) invoiced USAC based on an erroneous Cost Assessment algorithm that did not accurately calculate monthly charges from July 2017 to December 2017. The service provider over-billed USAC by a total \$390, during the period of July 2017 to December 2017.

The service provider is now aware of the Cost Assessment algorithm error and is working towards a resolution and reimbursement to USAC.

Item #	SPI #	Bill Month	Bill Current Charges	Ineligible Services	Total Eligible Amount
1	2764330	Jul-17	\$18,562	\$2,509	\$16,053
		Aug-17	\$18,863	\$2,483	\$16,380
		Sep-17	\$18,881	\$2,564	\$16,317
Total Eligible (Undiscounted)					\$48,750
Discount Rate (20%) (A)					\$9,750
Total Disbursed from USAC (B)					\$10,085
Monetary Effect (B – A = C)					\$335

Item #	SPI #	Bill Month	Bill Current Charges	Ineligible Services	Total Eligible Amount
2	2870857	Oct-17	\$19,097	\$2,458	\$16,639
		Nov-17	\$19,097	\$2,693	\$16,404
		Dec-17	\$19,031	\$2,726	\$16,305
Total Eligible (Undiscounted)					\$49,348
Discount Rate (20%) (A)					\$9,870
Total Disbursed from USAC (B)					\$9,925
Monetary Effect (B – A = C)					\$55

Cause The service provider did not have adequate controls and procedures in place to ensure the accurate eligible costs were submitted to USAC for reimbursement.

Effect The total monetary effect of this finding is an over disbursement of \$390 for FRN 1799032793. This amount represents the total undiscounted amount of \$1,950 over-invoiced to USAC (Total Disbursed of \$100,047 - Total Eligible \$98,097) multiplied by the 20% discount rate.

Recommendation The service provider should implement an effective review process to validate service charges included on service provider bills submitted to USAC for reimbursement. Additionally, the service provider should help ensure the accuracy and completeness by establishing a quality control review process of each SPI before submission to USAC.

Beneficiary Response Caddo Parish Public Schools filed FRN 1799032793 for only the eligible charges. Caddo checked the quarterly E-rate Payment Authorization Report to ensure the payments did not go over the total FRN requested. Caddo Parish Public Schools did not receive discounts that exceeded the total FRN requested amount. Caddo was not aware of billing error(s) that would cause AT&T to invoice USAC ineligible charges that was recently discovered and mentioned in AT&T[‘s] response.

Service Provider Response AT&T Response: AT&T has reviewed the revised Draft report for **SL2019BE050-F01**, and notes that the finding alleging that the Service Provider (AT&T) did not properly exclude ineligible charges/services including directory listings, directory assistance, inside wire maintenance plans and custom calling services, has been amended, reducing the monetary amount from \$4,069 to \$390 (Actual \$389.72)[.]

As indicated in the condition above, AT&T is aware of an algorithm error related to the Cost Assessment Charge (CAC) when calculating the discount on the eligible charges. AT&T has corrected the error and submitted a repayment in the exact amount of \$389.72 to USAC on 8/17 per USAC payment guidance.

KPMG Response We acknowledge the actions being taken by the service provider to resolve the overbilling that has already occurred with USAC and correction of the related calculation algorithm going forward for future invoicing purposes.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 54.504(f)(4) (2016)	“Filing of an FCC Form 473. All service providers eligible to provide telecommunications and other supported services under this subpart shall submit annually a completed FCC Form 473 to the Administrator. The FCC Form 473 shall be signed by an authorized person and shall include that person's certification under oath that:... (4) The service provider listed on the FCC Form 473 certifies that the invoices that are submitted by this Service Provider to the Billed Entity for reimbursement pursuant to Billed Entity Applicant Reimbursement Forms (FCC Form

Finding	Criteria	Description
		472) are accurate and represent payments from the Billed Entity to the Service Provider for equipment and services provided pursuant to E-rate program rules.”
#1	Schools and Libraries (E-rate) Program, FCC Form 473 (SPAC) User Guide, at 8.	<p>“9. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider contain requests for universal service support for services which have been billed to the Service Provider’s customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal service support by the fund administrator.</p> <p>10. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider are based on bills or invoices issued by the service provider to the Service Provider’s customers on behalf of schools, libraries, and consortia of those entities as deemed eligible for universal service support by the fund administrator, and exclude any charges previously invoiced to the fund administrator for which the fund administrator has not yet issued a reimbursement decision. ”</p>

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified one finding: Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills. Detailed information relative to the finding is described in the Finding, Recommendation and Beneficiary Response section above.

The estimated monetary effect of this finding is as follows:

Service Type	Monetary Effect of Audit Results	Recommended Recovery
Voice Services	\$390	\$390
Total Impact	\$390	\$390

The Service Provider should implement an effective review process to validate service charges included on service provider bills submitted to USAC for reimbursement. The Service Provider should ensure the accuracy and completeness of each SPI before submission.

Attachment S
SL2019BE033

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

CNMI PUBLIC SCHOOL SYSTEM

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

USAC AUDIT No. SL2019BE033



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
CNMI PUBLIC SCHOOL SYSTEM
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

November 4, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Commonwealth of the Northern Mariana Islands (CNMI) Public School System (Beneficiary), Billed Entity Number (BEN) 159986, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, and 2) data used to calculate the discount percentage and the type and amount of services received. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	Overlapping Recovery	Recovery Action
Finding No. 1, 47 C.F.R. § 54.504(e)(1) (2016) – The Service Provider Over-Invoiced SLP for Ineligible Services. The Beneficiary’s service provider invoiced USAC for ineligible and erroneous voice services.	\$4,286	\$0	\$4,286
Finding No. 2, 47 C.F.R. § 54.523 (2016) – Untimely Payment of Beneficiary’s Non-Discounted Share to Service Provider. The Beneficiary did not consistently pay the non-discounted portion of the service provider’s billings within 90 days of receiving the service.	\$0	\$0	\$0
Total Net Monetary Effect	<u>\$4,286</u>	<u>\$0</u>	<u>\$4,286</u>

USAC Management Response

USAC management concurs with the audit results stated above. See chart below for the recovery amount. If there are other FRNs under the scope of the findings, there will be additional recoveries and/or commitment adjustments. USAC will request the Service Provider and Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC refers the applicant and service provider to our website for additional resources. Various links are listed below.

- <https://www.usac.org/e-rate/trainings/online-training/training-series-for-service-providers/>

- <https://www.usac.org/e-rate/trainings/online-training/training-series-for-service-providers/>
- <https://www.usac.org/e-rate/applicant-process/before-you-begin/eligible-services-list/>
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>

USAC has subscribed the Beneficiary and Service Provider to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary and Service Provider to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
1799068123	\$3,393
1799068124	\$893
Total	\$4,286

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year (FY) 2017. The Beneficiary is a school district located in Saipan, Northern Mariana Islands that serves more than 9,700 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for FY 2017 as of October 9, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$871,020	\$790,020
Voice	\$98,309	\$69,294
Total	\$969,329	\$859,314

The “amount committed” total represents three FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2017 that resulted in 12 Funding Request Numbers (FRNs). We selected a sample of four of the FRNs, which represent \$607,456 of the funds committed and \$584,194 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 inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the

Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) primarily considered the price of the eligible services 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 services requested and purchased.

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 54.504(e)(1) (2016)¹– The Service Provider Over-Invoiced SLP for Ineligible Services

Condition

The Beneficiary’s service provider, IT&E (Service Provider), invoiced SLP for ineligible and erroneous voice services under two FRNs, as follows:

¹ See also 47 C.F.R. § 54.502(a) (2016).

- FRN 1799068123: The Service Provider invoiced SLP for pre-discounted costs of \$3,600 in ineligible direct-inward dialing charges, \$1,200 in T1 circuit charges that were not included in the contract and not requested in the Beneficiary’s FCC Form 471, and \$6,508 as a result of applying rates that exceeded the rates specified in the contract.
- FRN 1799068124: The Service Provider’s invoices to SLP exceeded the pre-discounted eligible costs billed to the Beneficiary by \$2,977.

Cause

The Service Provider did not have adequate controls and procedures in place to ensure that it did not invoice SLP for ineligible services. The Beneficiary stated that the majority of the discrepancies identified were the result of the complicated billing system that the Beneficiary and the Service Provider had in place. In some cases, the Service Provider billed based on usage, rather than using the contractual billing rates. The Beneficiary stated that it has been working with the Service Provider to correct the Service Provider’s billings going forward.

Effect

The Service Provider invoiced SLP for \$4,286 in ineligible costs, as follows:

- FRN 1799068123: \$3,393 (SLP’s portion of the \$11,308 pre-discount amount, based on the Beneficiary’s 30 percent discount rate)
- FRN 1799068124: \$893 (SLP’s portion of the \$2,977 pre-discount amount, based on the Beneficiary’s 30 percent discount rate)

Support Type	Monetary Effect	Recommended Recovery
Voice Services (FRN 1799068123)	\$3,393	\$3,393
Voice Services (FRN 1799068124)	\$893	\$893
Total	\$4,286	\$4,286

Recommendation

We recommend that:

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

Beneficiary Response

The CNMI Public School system has recognized the findings made by Cotton & Company LLP and have notified our Service Provider (IT&E). During this funding year, I was in the process of transitioning into my position as State Technology Director. This funding year was part of a 3 year multi-contract initiated by the former Technology Director. As I transitioned into the position, we had an IT staff who was responsible for filing the 471 forms for 2017 and I was under the assumption that he was aware of what eligible services we can file. I was unaware of the ineligible services being billed to USAC and will work to correct these findings.

As we move forward with the findings, the CNMI PSS is willing to work on resolving these findings and ensuring these charges are paid back. The CNMI PSS has made significant changes with our Service Provider to ensure that all non eligible services are not over looked. We have worked on simplifying the billing process to reflect only the contracted amounts and eligible service charges.

Finding No. 2, 47 C.F.R. § 54.523 (2016)² – Untimely Payment of Beneficiary’s Non-Discounted Share to Service Provider

Condition

The Beneficiary did not consistently pay the non-discounted portion of the service providers’ billings within 90 days of receiving the service. Specifically:

- The Beneficiary did not pay the December 28, 2017, quarterly billing for services provided under FRNs 1799067962, 1799068123, and 1799068124 until May 15, 2018.
- The Beneficiary made multiple untimely payments to the service provider providing Internet access services under FRN 1799068139, as follows:

Payment Date	Invoice Period	Amount
December 14, 2017	July 2017	\$16,200
December 14, 2017	August 2017	\$16,200
February 14, 2020	June 2018	\$16,200

Cause

The Beneficiary did not have controls in place to ensure that it consistently paid service providers in a timely manner. The Beneficiary attributed the late payments made on December 14, 2017, and May 15, 2018 to funding issues. The Beneficiary stated that its original payment for June 2018 services had been misapplied to another contract with this service provider.

Effect

This finding did not have a monetary impact, as the Beneficiary did pay its non-discounted share of the services. However, we noted a compliance finding as a result of the Beneficiary’s untimely payments.

Recommendation

We recommend that the Beneficiary establish and implement adequate internal controls and procedures to ensure that it pays its non-discounted share within a reasonable timeframe (i.e., within 90 days of receiving the service).

² See also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 24 (2004).

Beneficiary Response

CNMI PSS has worked to correct the delayed billing process. The former Technology Director and IT&E agreed to be billed quarterly on the local share. I changed this on the recent RFP in 2018 to indicate that all local share billings are to be made to PSS on a monthly basis to ensure timely payment. This was an issue I encountered when I first started the position. I worked with our service provider (IT&E) to simplify the billings. Since then we have not had any issues with paying the service provider on a timely basis.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.504 (e)(1) (2016)	<p>(e) Mixed eligibility services. A request for discounts for a product or service that includes both eligible and ineligible components must allocate the cost of the contract to eligible and ineligible components.</p> <p>(1) Ineligible components. If a product or service contains ineligible components, costs must be allocated to the extent that a clear delineation can be made between the eligible and ineligible components. The delineation must have a tangible basis, and the price for the eligible portion must be the most cost-effective means of receiving the eligible service.</p>
1	47 C.F.R. § 54.502 (a) (2016)	<p>(a) Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms.</p>
2	47 C.F.R. § 54.523 (2016)	<p>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.</p>
2	Schools and Libraries Universal Service Support Mechanism, CC	<p><u>24. Failure to Pay Non-discounted Share.</u></p> <p>We believe, based on USAC's experience to date as Administrator, that a relatively short period – comparable</p>

Finding	Criteria	Description
	Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 24 (2004)	<i>to what occurs in commercial settings – should be established in which beneficiaries are expected to pay their non-discounted share after completion of delivery of service. In other contexts, companies refer payment matters to collection agencies if a customer fails to pay after several requests for payment. Accordingly, we clarify prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates our rule that the beneficiary must pay its share.</i>

COTTON & COMPANY LLP



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

ATTACHMENT T

SL2019BE02

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

DELAWARE COUNTY IU RWAN CONSORTIUM

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

USAC AUDIT No. SL2019BE028



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
DELAWARE COUNTY IU RWAN CONSORTIUM
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES**

Executive Summary

November 4, 2020

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Delmar:

Cotton & Company LLP (referred to as “we”) audited the compliance of Delaware County IU RWAN Consortium (Beneficiary), Billed Entity Number (BEN) 17000533, 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 Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with the Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and 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 Recovery Action

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

Audit Results	Monetary Effect	Overlapping Recovery	Recovery Action
<p>Finding No. 1, 47 C.F.R. § 54.504(a)(1)(iii) (2016) – Lack of Necessary Resources to Make Effective Use of Equipment. The Beneficiary did not install all of the Category 1 network equipment for which it requested and received SLP funding.</p>	\$0	\$0	\$0
<p>Finding No. 2, 47 C.F.R. § 54.523 (2016) – Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider. The Beneficiary did not consistently pay the non-discounted portion of its service providers’ bills within 90 days of receiving the service.</p>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. As stated by the auditors, the applicant returned funds to USAC, therefore, there is no recovery. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC also refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/before-youre-done/transfer-of-equipment/>
- <https://www.usac.org/e-rate/applicant-process/before-youre-done/service-delivery/>
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year (FY) 2017. The Beneficiary is a consortium located in Morton, Pennsylvania that serves more than 70,000 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary for FY 2017 as of November 13, 2019, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$260,463	\$260,463
Total	\$260,463	\$260,463

The “amount committed” total represents three FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2017 that resulted in six Funding Request Numbers (FRNs). We selected a sample of three of the FRNs, which represent \$103,845 of the funds committed and \$103,845 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, direct observation, and inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its 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 a sample of members' Internet Safety Policies and obtained an understanding of the process by which the members 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 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 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 and service provider submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary and service provider had properly invoiced USAC. Specifically, we reviewed bills associated with the BEAR and SPI forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the BEAR and SPI forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and were eligible in accordance with the SLP Eligible Services List.

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 54.504(a)(1)(iii) (2016) – Lack of Necessary Resources to Make Effective Use of Equipment

Condition

The Beneficiary did not use all of the network equipment (purchased as part of the Category 1 supported services in order to make the services functional) for which it received SLP funding under FRNs 1799076673 and 1799076914. In response to our audit request, the Beneficiary prepared fixed asset lists for the equipment funded under these two FRNs. In preparing this information, the Beneficiary determined that three of the switches purchased with funding under FRN 1799076673 were on hand but had not been installed. The total cost for the three unused switches was \$4,584. The Beneficiary also identified multiple transceivers purchased with funding under FRN 1799076914 that the Beneficiary had either left unused or returned to the vendor for credit. The total cost for the unused transceivers was \$11,319.

Cause

The Beneficiary did not limit its Category 1 funding requests to equipment actually needed for education services. Beneficiary representatives were unable to provide an explanation for the excess purchases because the official involved with, and responsible for, the procurement and installation of the FY 2017 equipment no longer works for the Beneficiary.

Effect

The Beneficiary overstated its invoices to the SLP by \$15,903, or the pre-discount cost of the unused switches and transceiver equipment. The Beneficiary's discount rate for the two FRNs was 61 percent, resulting in total USAC overpayments of \$9,701. The Beneficiary refunded USAC a total of \$2,796 in December 2019 and \$6,905 in February 2020, when it discovered the over-invoiced amounts. We therefore are not recommending recovery for this finding.

Recommendation

We recommend that the Beneficiary implement stronger controls and procedures to ensure that it only requests SLP funding and reimbursement for equipment that is necessary for educational purposes.

Beneficiary Response

We do not challenge the findings and recommendations.

Recommendation # 1 proposes that the Beneficiary implement stronger controls and procedures to ensure that it only requests E-rate funding and reimbursement for equipment that is necessary for educational purposes.

Recommendation # 2 proposes that the Beneficiary implement adequate internal controls and procedures to ensure that it pays its non-discounted share of billed services in a timely manner (i.e., within 90 days of receiving the service).

Both findings have a common theme that suggest that it would be advantageous to the Beneficiary to strengthen its internal controls concerning E-rate activities. We concur. To that

end we want to inform USAC of the following improvements we have made to our E-rate processes. We are confident that these procedures will be met with favor by USAC management.

- 1. Ed Norris, the Assistant Chief Financial and Operations Officer, who reports to the Chief Operation and Finance Officer, has been designated as the coordinator of all E-rate related activities on behalf of the Beneficiary.*
- 2. Proposed E-rate procurements are submitted by Khalid Ayyubov, the Director of Information Technology Services & Systems to Mr. Norris. Mr. Ayyubov must justify the necessity of the procurements and verify that the Applicant has or will have the necessary resources to use the services and/or equipment paid for with E-rate discount funding. Mr. Norris is required to approve the commencement of the procurement cycle. These checks and balances are intended to ensure that both individuals are fully aware of and approve the potential procurements that will be included on future [FCC] [F]orm 471 applications on behalf of the Applicant.*
- 3. The E-rate consultant will discuss all questions or issues about the procurement with both parties.*
- 4. Mr. Norris and Mr. Ayyubov will work with the E-rate consultant to prepare E-rate compliance [FCC] Form 470s and RFPs (if necessary and/or appropriate) and are responsible for reviewing and evaluating bids and selecting the most cost-effective solution. Their questions concerning the E-rate procurement process will be posed to and addressed by the E-rate consultant.*
- 5. Once the most cost effective solution for each procurement is identified by Mr. Norris and Mr. Ayyubov, they will be responsible for seeking and obtaining board approval of contracts.*
- 6. A summary of E-rate funding requests will be prepared by the E-rate consultant and submitted to Mr. Norris and Mr. Ayyubov for their review and approval. The summary will include detailed calculations of the requested funding including source documents such as contracts and/or vendor bills.*
- 7. The draft [FCC] Form 471 application will be submitted to Mr. Norris and Mr. Ayyubov for review and approval prior to submission and certification.*
- 8. The E-rate consultant will be responsible for preparing CIPA compliance [FCC] Forms 479 and sending them annually to the RWAN members for their completion. The E-rate consultant also is responsible for periodically preparing and circulating E-rate Letters of Agency to the RWAN members.*
- 9. The E-rate consultant will confer with Mr. Norris and Mr. Ayyubov concerning PIA questions.*
- 10. Upon receipt of funding approvals, if the Applicant chooses to wait for receipt of E-rate funding approval, the E-rate consultant will prepare draft purchase orders using discounted billing for the purchase of any E-rate Category 1 or Category 2 equipment and services and also submit [FCC] Form 486. If the Applicant chooses to make purchases of equipment prior to receipt of E-rate funding approval the E-rate consultant will prepare the purchase orders to use the BEAR reimbursement method.*
- 11. The E-rate consultant will remind Mr. Norris and Mr. Ayyubov of all other E-rate recordkeeping responsibilities such as a fixed asset register, notification and submission of approval of equipment changes (service substitutions) and retaining copies of all vendor invoices, packing slips and proof of payment of invoices.*

12. The E-rate consultant will send an annual reminder of the E-rate requirements for purchase, installation, and payment of invoices for equipment and services purchased with E-rate funding.
- a. Invoices for all E-rate services and equipment will be submitted to Mr. Ayyubov for review and approval for accuracy. Mr. Ayyubov will confer with Mr. Norris and the E-rate consultant if he has any questions.
 - b. Upon receipt of an E-rate vendor's invoice, Mr. Ayyubov or his assistant will enter the invoice into the IU's payment processing system. He is required to approve the invoice in the system in order for the invoice to be submitted for payment.
 - c. Mr. Ayyubov works with an administrative assistant who keeps track of E-rate invoices submitted into the payment processing system and ensures that these invoices are promptly reviewed and approved by Mr. Ayyubov for processing.
 - d. Mr. Ayyubov and his staff are responsible for maintaining the fixed asset inventory of equipment purchased with E-rate discount funding.
 - e. The deadline for the installation of all equipment purchased with E-rate discount funding will be annually communicated to Mr. Ayyubov and Mr. Norris.
 - f. If any equipment is not installed by the service implementation deadline and more time is needed, Mr. Ayyubov will inform the E-rate consultant and a request for an extension of this deadline will be submitted.
 - g. Reimbursements of E-rate discount funding (either the SPI or BEAR method) will reflect the costs of equipment that has been purchased and installed, or for which the installation date has been scheduled and is known to be in the foreseeable future and compliant with the service implementation deadline.
 - h. If equipment is purchased but will not be used by the service implementation deadline, the E-rate reimbursement request will exclude such equipment. Such information will be communicated to the vendor in the event that the discounted billing method is used. A [FCC] Form 500 will be submitted to partially reduce the FRN.
13. The E-rate consultant will submit all E-rate documentation to the IU annually to ensure that the IU has this information and will retain all records for a period of 10 years from the last date of service for the funding year.
14. Conference calls will be held by Mr. Norris, Mr. Ayyubov, and the E-rate consultant at least once per calendar (and more frequently as may be necessary) to discuss any questions and to review current activities.

Finding No. 2, 47 C.F.R. § 54.523 (2016)¹ – Untimely Payment of the Beneficiary's Non-Discounted Share to the Service Provider

Condition

The Beneficiary did not consistently pay its non-discounted portion to service providers within 90 days of receiving the service. Specifically, a service provider delivered Category 1 equipment funded under FRN 1799076673 to the Beneficiary in June and July 2017; however, the Beneficiary did not pay the service provider for the equipment until October 31, 2017. In

¹ See also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 24 (2004) (*Fifth Report and Order*).

addition, a service provider delivered Internet access services funded under FRN 1799076907 to the Beneficiary in January and February 2018; however, the Beneficiary did not pay the service provider for the services until June 19, 2018.

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing timely payment of the non-discounted share of billed services. The Beneficiary’s representative was unable to provide an explanation for the untimely payments because the individual who was responsible for reviewing and approving the bills, the Director of Technology, no longer works for the Beneficiary. The representative believed the issue to be the result of an inadvertent oversight.

Effect

There is no monetary effect for this finding, as the Beneficiary paid its non-discounted share for the services within the funding year. However, by not making payments in a timely manner, the Beneficiary is at an increased risk of failing to pay its non-discounted share, as required by the Rules.

Recommendation

We recommend that the Beneficiary implement adequate internal controls and procedures to ensure that it pays its non-discounted share of billed services in a timely manner (i.e., within 90 days of receiving the service).

Beneficiary Response

The Beneficiary’s response is included in its entirety in Finding No. 1 above.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.504(a)(1)(iii) (2016)	<p><i>a) Filing of the FCC Form 471. An eligible school, library, or consortium that includes an eligible school or library seeking to receive discounts for eligible services under this subpart shall, upon entering into a signed contract or other legally binding agreement for eligible services, submit a completed FCC Form 471 to the Administrator.</i></p> <p><i>(1) The FCC Form 471 shall be signed by the person authorized to order eligible services for the eligible school, library, or consortium and shall include that person's certification under oath that:</i></p> <p><i>(i) The schools meet the statutory definition of “elementary school” or “secondary school” as defined in § 54.500 of</i></p>

Finding	Criteria	Description
		<p><i>this subpart, do not operate as for-profit businesses, and do not have endowments exceeding \$50 million.</i></p> <p><i>(ii) The libraries or library consortia eligible for assistance from a State library administrative agency under the Library Services and Technology Act of 1996 do not operate as for-profit businesses and whose budgets are completely separate from any school (including, but not limited to, elementary and secondary schools, colleges, and universities).</i></p> <p><i>(iii) The entities listed on the FCC Form 471 application have secured access to all of the resources, including computers, training, software, maintenance, internal connections, and electrical connections, necessary to make effective use of the services purchased.</i></p>
2	47 C.F.R. § 54.523 (2016)	<p><i>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.</i></p>
2	<p><i>In the Matter of Schools & Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order, FCC 04-190, 19 FCC Rcd 15808, 15816, para. 24 (2004) (Fifth Report and Order)</i></p>	<p><u>Failure to Pay Non-discounted Share.</u> <i>We believe, based on USAC’s experience to date as Administrator, that a relatively short period – comparable to what occurs in commercial settings – should be established in which beneficiaries are expected to pay their non-discounted share after completion of delivery of service. In other contexts, companies refer payment matters to collection agencies if a customer fails to pay after several requests for payment. Accordingly, we clarify prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates our rule that the beneficiary must pay its share.</i></p>

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Michael W. Gillespie". The signature is fluid and cursive, with the first name being the most prominent.

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

ATTACHMENT U

SL2019LS013

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Monroe County Library System

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2019LS013

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EXECUTIVE SUMMARY

July 29, 2020

Patricia Uttaro, Director
Monroe County Library System
115 South Avenue
Rochester, NY 14604

Dear Ms. Uttaro:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Monroe County Library System (Beneficiary), Billed Entity Number (BEN) 124984, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the FCC Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2018 Revision). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, physical inventory of equipment purchased and maintained, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding (Finding) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in cursive script that reads "Teleshia Delmar".

Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.520(c)(2) – Failure to Comply with CIPA Requirements - Missing Internet Safety Policy Elements. The Internet Safety Policies for three of the five sampled member libraries did not address all of the required Internet safety elements.	\$0	\$0	\$0
Total Net Monetary Effect	\$0	\$0	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified. USAC also refers the applicant to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/starting-services/cipa/>
- <https://www.usac.org/e-rate/learn/webinars/> (Starting Services: FCC Form 486)

USAC records show the Beneficiary is currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-rate Program.

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2018:

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$337,911	\$274,927
Internet Access	\$241,267	\$227,386
Total	\$579,178	\$502,313

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

The committed total represents four FCC Form 471 applications with four Funding Request Numbers (FRNs). AAD selected two of the four FRNs,¹ which represent \$527,023 of the funds committed and \$274,927 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2018 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a library system located in Rochester, New York that serves a community with over 700,000 residents.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

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

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. AAD examined the service provider contracts to determine whether they were properly executed. AAD determined whether the equipment and services requested and purchased were cost-effective as well.

¹The FRNs included in the scope of this audit were: 1899006751 and 1899069474.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS**Finding #1:** 47 C.F.R. § 54.520(c)(2) – Failure to Comply with CIPA Requirements - Missing Internet Safety Policy Elements**CONDITION**

AAD obtained and examined documentation to determine whether the Beneficiary complied with the Children’s Internet Protection Act (CIPA) requirements for FRNs 1899006751 and 1899069474. Each of the Beneficiary’s member libraries establish its own Internet Safety Policy (ISP) that governs the use of the Internet within its facility. AAD sampled and reviewed the ISP for five member libraries and noted that three of the five libraries’ ISPs did not address all the required Internet safety elements listed below:

Member Library	Missing ISP Element
Irondequoit Public Library	<ul style="list-style-type: none"> • The safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications. • Unauthorized disclosure, use, and dissemination of personal information regarding minors.
Newman Riga Library	<ul style="list-style-type: none"> • Unauthorized disclosure, use, and dissemination of personal information regarding minors.
Ogden Farmers’ Library	<ul style="list-style-type: none"> • The safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications. • Unauthorized disclosure, use, and dissemination of personal information regarding minors.

Therefore, the Beneficiary was not 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.²

CAUSE

The Beneficiary did not have adequate controls and procedures in place to ensure that its member libraries are in compliance with the Rules governing CIPA requirements. Although the Beneficiary provides training to its independent member libraries on the CIPA requirements, the Beneficiary is unable to govern the member libraries’ policies or procedures and was not able to ensure member library personnel applied the instruction provided by the Beneficiary.

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 1899006751 and 1899069474, the Beneficiary substantially complied with the spirit of the CIPA requirements.

² See Letter from Dana R. Shaffer, Chief, Wireline Competition Bureau to Scott Barash, Acting Chief Executive Officer, USAC, WC Docket No. 02-6, 24 FCC Rcd. 417 (Jan. 16, 2009).

RECOMMENDATION

The Beneficiary's member libraries must update their ISPs to ensure that all required Internet safety policy elements are addressed. In addition, AAD recommends the Beneficiary implement controls and procedures to monitor its member libraries' compliance with the Rules governing CIPA requirements.

BENEFICIARY RESPONSE

The Monroe County Library System (MCLS) initial audit finding response was to confirm provision of additional training to member libraries on CIPA, the filtering process provided for the network internet, and to provide USAC guidelines and minimum standards for Internet access or safety policies that must be in place for all member libraries that receive USAC E-rate services. Said training will occur in September 2020.

The MCLS will provide in writing to each member library the requirement that all member libraries that utilize MCLS E-rate funds to access the Internet must maintain a policy of Internet safety that includes the operation of a technology protection measure with respect to any of its computers with Internet access that protects against access through such computers to visual depictions that are obscene; child pornography; or harmful to minors (with respect to computers used by minors). We are confident this exists at the current time for all members.

In addition, the MCLS will review each policy with member library directors to ensure their Internet access or safety policy satisfactorily addresses:

- access by minors to inappropriate matter on the Internet and World Wide Web;
- 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;
- unauthorized disclosure, use, and dissemination of personal identification information regarding minors; and
- measures designed to restrict minors' access to materials harmful to minors.

If amendments are recommended (and are recommended for the three libraries noted in Finding #1), the member shall provide reasonable public notice and hold at a public meeting to address the proposed amendments to their Internet safety policy. At this point in time, we are confident all MCLS member libraries maintain satisfactory procedures by which authorized individuals will, without significant delay, disable the Internet filter upon request by an adult.

The MCLS administration will assist with review of member policies and will request copies of newly adopted amendments. Member libraries shall retain a copy of public notices and minutes from public meetings on file for ten years.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.520(c)(2) (2017).	<p>The billed entity for a library that receives discounts for Internet access and internal connections must certify, on FCC Form 486, that an Internet safety policy is being enforced. If the library is an eligible member of a consortium but is not the billed entity for the consortium, the library must instead certify on FCC Form 479 (“Certification to Consortium Leader of Compliance with the Children’s Internet Protection Act”) that an Internet safety policy is being enforced.</p> <p>(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 library 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)(2) 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.</p> <p>(ii) The Internet safety policy adopted and enforced pursuant to 47 U.S.C. 254(l) must address all of the following issues:</p> <ul style="list-style-type: none"> (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.
#1	Letter from Dana R. Shaffer, Chief, Wireline Competition Bureau to Scott Barash, Acting Chief Executive Officer, USAC, WC Docket No. 02-6, 24 FCC Rcd. 417 (Jan. 16, 2009).	<p>We note, however, that, in certain instances, although the applicant may not have been in technical compliance, there was substantial compliance with the spirit of the CIPA requirements. For example, an audit found that Little Rock School District (Little Rock) was not in compliance with the CIPA requirement to have in place an Internet safety policy that addressed measures designed to restrict minors’ access to harmful materials. Although Little Rock’s Internet safety policy did not address this point, Little Rock did have in place an Internet filter that restricted minor’s access to harmful materials. In this case, recovery is not warranted.</p>

ATTACHMENT V

SL2018LS025

Skyline Education, Inc.

Limited Scope Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2018LS025

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Finding #3: In the Matter of Schools & Libraries Universal Service Support Mechanism,
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 15816, ¶ 24 – Untimely Payment of Beneficiary’s Non-Discounted Share to the Service
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EXECUTIVE SUMMARY

August 25, 2020

Ronda Owens, Chief Executive Officer
Skyline Education, Inc.
7450-7500 S. 40th Street
Phoenix, AZ 85042

Dear Ms. Owens:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Skyline Education, Inc. (Beneficiary), Billed Entity Number (BEN) 17005142, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited scope performance audit.

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

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

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

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

Sincerely,



Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
<p>Finding #1: Schools and Libraries' Eligibility Services List for Funding Year 2017 (Sept. 2016) - Beneficiary Over-Invoiced SLP for Duplicative Services. The Beneficiary invoiced SLP for internet access services that were duplicative and not eligible in accordance with the Schools and Libraries' Eligible Services List for Funding Year 2017 (ESL).</p>	\$11,342	\$11,342	\$11,342
<p>Finding #2: FCC Form 474 (SPI) User Guide at 11 (April 2017) - Service Provider Improperly Invoiced Approved Services to the Incorrect FRN. The Service Provider submitted SPI forms for the voice services FRN that improperly included charges for the internet access services that were provided to the Beneficiary.</p>	\$2,539	\$2,539	\$2,539
<p>Finding #3: In the Matter of Schools & Libraries Universal Service Support Mechanism, Fifth Report and Order and Order, CC Docket No. 02-6, FCC 04-190, 19 FCC Rcd 15808, 15816, ¶ 24 (2004) - Untimely Payment of Beneficiary's Non-Discounted Share to the Service Provider. The Beneficiary did not pay its non-discounted share to the Service Provider timely (i.e. within 90 days).</p>	\$ 0	\$0	\$0
Total Net Monetary Effect	\$13,881	\$13,881	\$13,881

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Beneficiary and Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/invoicing/>
- <https://www.usac.org/e-rate/trainings/bear-training-site/>
- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>
- <https://www.usac.org/e-rate/learn/webinars/> Click “The E-rate Invoicing Process”
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>

USAC records show the Beneficiary and Service Provider are currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary and Service Provider to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount	Commitment Adjustment
1799036745	\$11,342	\$11,342
1799036738	\$2,539	\$2,539
Total	\$13,881	\$13,881

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 2017 (audit period):

Service Type	Amount Committed	Amount Disbursed
Basic Maintenance of Internal Connections	\$33,496	\$0
Internet Access	\$194,022	\$186,399
Voice	\$17,873	\$12,311
Total	\$245,391	\$198,710¹

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

The committed total represents two FCC Form 471 applications with thirteen Funding Request Numbers (FRNs). AAD selected six FRNs of the thirteen FRNs², which represent \$205,538 of the funds committed and \$162,054 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2017 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a charter school located in Phoenix, Arizona that serves over 1,150 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

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

AAD obtained and examined documentation to determine whether the Beneficiary complied with the

¹ Subsequent to the date of the commencement of the audit, additional funds were disbursed to the Beneficiary for the Basic Maintenance of internal connection services. As of the date of this report, the total amount disbursed is \$232,206.

² The FRNs included in the scope of this audit were: 1799036730, 1799036731, 1799036734, 1799036738, 1799036745 and 1799036755.

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

B. Competitive Bid Process

AAD used inquiry to determine that no bids were received for the requested services. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before executing month-to-month agreements with the selected service providers.

C. Invoicing Process

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

D. Beneficiary Location

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS**Finding #1:** Schools and Libraries' Eligible Services List for Funding Year 2017 at pg. 7-
Beneficiary Invoiced SLP for Duplicative Services**CONDITION**

AAD obtained and examined the FCC Form 471, FCC Form 472 Billed Entity Applicant Reimbursement (BEAR) forms, and the corresponding service provider bills submitted by the Beneficiary to determine whether the Schools and Libraries Program (SLP) was only invoiced for eligible services for FRNs 1799036730 and 1799036745. The Beneficiary invoiced SLP for Internet Access services that were duplicative and not eligible in accordance with the Schools and Libraries Eligible Services List for Funding Year 2017 (ESL).

In our review of the FCC Form 471, the service provider bills, and the BEAR forms, AAD determined that, although the internet access services for FRNs 1799036730 and 1799036745 had different speeds, the services provide the same functionality to the same population in the same location during the same period of time. Thus, this provision constitutes duplicative services; and is therefore, ineligible for SLP funding.³ The Beneficiary stated that the 10mbps/6mbps internet service provided for FRN 1799036745 serves as a backup to the main DS-3 internet service received for FRN 1799036730.⁴ The Beneficiary also stated that it is important to have the backup of the 10/6 Mbps connection from an independent internet service provider, in case of an interruption in service during a critical testing period.⁵

The Beneficiary should not have invoiced SLP for the back-up internet access services provided for FRN 1799036745. The total amount invoiced to SLP for FRN 1799036745 totaled \$11,342. Thus, the Beneficiary over-invoiced SLP for \$11,342. SLP disbursed the full amount requested on the BEAR forms to the Beneficiary.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing reimbursement from SLP for only approved, eligible services. The Beneficiary used a secondary internet service provider as a backup because the school is located on a Tribal Reservation and it desired to have its instructional labs continue working in the event of a service interruption. The Beneficiary did not know this backup service constituted a duplicative service that was ineligible for E-rate funding.

EFFECT

The monetary effect of this finding is \$11,342. This amount represents the total amount invoiced by the Beneficiary and disbursed by SLP for FRN 1799036745.

³ *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 25 (2004) (*Fifth Report and Order*).

⁴ Email to AAD from Martin Fraley, E-rate Consultant for the Beneficiary, on 5/29/2019.

⁵ *Id.*

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$11,342. The Beneficiary must implement controls and procedures to ensure SLP is invoiced only for the Beneficiary's discounted portion of eligible services and entities that are requested on the FCC Form 471 and committed in an FCDL.

BENEFICIARY RESPONSE

The School has moved locations to a new facility that was completed in July 2019. Since the School has moved to a location that is not physically on the Gila River Indian Reservation, the School is able to contract with a reliable service provider and will no longer need a backup, secondary internet service provider.

Finding #2: FCC Form 474 (SPI) User Guide at 11 (April 2017) - Service Provider Improperly Invoiced Approved Services to the Incorrect FRN

CONDITION

AAD obtained and examined documentation, including the service provider bills and corresponding FCC Form 474 Service Provider Invoice (SPI) forms that were submitted for reimbursement by the Service Provider to determine whether the Schools and Libraries Program (SLP) was properly invoiced for the supported services received by the Beneficiary.

The Beneficiary requested and was approved for internet access services for a total pre-discounted amount of \$78,317 and voice services for a total pre-discounted amount of \$18,654 for FRNs 1799036731 and 1799036738, respectively. The Service Provider (SP) invoiced SLP for internet access services (\$69,847 of total undiscounted amount of service) and voice (\$10,769 of total undiscounted amount of service) services under FRN 179903631 and 1799036738, respectively, for Funding Year 2017.

In our review of the service provider bills, the Beneficiary received and was properly billed for the requested services. However, the Service Provider submitted SPI forms⁶ for the voice services FRN 1799036738 that improperly included charges for the internet access services that were provided to the Beneficiary.

AAD requested and obtained from the Service Provider a detailed description of all the monthly bills for the year.⁷ The detailed breakdown included a clear description that indicated whether the Network Access Assessment (NAA) charge was related to voice or internet access services. The portion of NAA charges that were attributed to internet access services should have been included on the SPI forms for the internet access services FRN 1799036731 and the portion of NAA charges that are attributed to voice services should have been included on the SPI forms for the voice services FRN 1799036738. However, AAD noted that all of the NAA charges were included on the SPI forms for the voice services FRN 1799036738. The Service Provider explained that the decision to include all the NAA charges for the voice services FRN 1799036738 was due to instructions received from the Beneficiary's E-rate consultant.⁸

⁶ SPI Form Nos: 2730497, 2744731, 2758821, 2777066, 2791014, 2802110, 2814477, 2823056 and 2836643.

⁷ Email correspondence to AAD from Ms. Monica Canaday, Account Manager at Eschelon (December 12, 2018 and February 1, 2019).

⁸ Email correspondence to AAD from Ms. Monica Canaday, Account Manager at Eschelon, on December 12, 2018.

The total NAA charges on the Service Provider bills totaled \$8,744, of which \$280 should have been included in the voice services FRN 1799036738 and the remaining \$8,464 should have been included in the internet access services FRN 1799036731. See details in the table below:

Recalculation of the Total Undiscounted/Discounted Amount of Service										
			Original			Recalculated				Variance
FRN	Year	Service Type	Total Un-Discounted Amount for Service per SPI Forms	Discount Rate per Form 471	Total Discount Amount Invoiced to SLP per SPI Forms	NAA Charges Included in the Voice Services FRN per SPI	Proper Allocation of NAA charges	Total Pre-Discounted Charges that Should Have Been Included on SPI	Total Discount Amount that Should Have Been Included on SPI	Difference between Original and Recalculated Amount
			(A)	(B)	(C = A * B)	(D)	(E)	(F = A + D + E)	(G = F * B)	(H = C - G if (G < C))
1799036731	2017	Internet Access	\$ 69,847	90%	\$ 62,862	\$ -	\$ 8,464	\$ 78,311	\$ 70,480	N/A
1799036738	2017	Voice	\$ 10,769	30%	\$ 3,231	\$ (8,744)	\$ 280	\$ 2,305	\$ 692	\$ 2,539

* NAA allocation based on service provider bill detail sent to AAD from Monica Canaday, Account Manager at Eschelon (December 12, 2018 and February 1, 2019).

The total discounted amount that should have been invoiced to SLP for the voice services FRN 1799036738 totaled \$692, instead of the \$3,231 that was invoiced. Thus, the Service Provider improperly invoiced SLP for \$2,539 (\$3,231 - \$692) to the voice services FRN 1799036738 for the NAA charges. The total discounted amount that should have been invoiced to SLP for the internet access services FRN 1799036731 totaled \$70,480, instead of the \$62,863 that was invoiced. Thus, the Service Provider could have invoiced SLP for \$7,617 (\$70,480 - \$62,863) to the internet access services FRN 1799036731 for the NAA charges.

CAUSE

The service provider did not have adequate controls and procedures in place to ensure that the amounts invoiced to USAC on the SPI forms were accurate and included approved eligible services invoiced to the correct FRN(s). The service provider acknowledged the error, and informed AAD that the decision to include these costs under the voice FRN was based on instructions received from the Beneficiary’s E-rate consultant. In addition, the Beneficiary informed AAD that “there was confusion between the schools and the vendor regarding where the network access assessment services should be billed, and the miscommunication resulted in the inclusion of the network access assessment [under] the voice services [FRN] when it should not be included. This [issue] has been remediated for the future.”⁹

EFFECT

The total monetary effect of this finding is \$10,156. This amount represents the total amount that was over-invoiced for FRN 1799036738 (\$2,539) and the total amount that was under-invoiced for FRN 1799036731 (\$7,617).

⁹ Email to AAD from K.J. WeiHING, Vice President of Finance for Skyline Education, Inc. (November 19, 2019).

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$2,539 for FRN 1799036738. The Service Provider must implement controls and procedures to ensure USAC is invoiced for the correct discounted amount for the correct FRN. AAD also recommends the Service Provider work with SLP to determine what actions, if any, can be taken to address the \$7,617 that was under-invoiced to SLP for FRN 1799036731.

BENEFICIARY RESPONSE

Because voice services are not a covered service by the E-rate program moving forward, this will not happen in the future. Additionally, the School has had discussions with the service provider to increase communication around how services are being assigned to FRNs moving forward.

SERVICE PROVIDER RESPONSE

We [Allstream] have reviewed the Skyline Education audit findings and recommendation. The findings conclude that the Beneficiary received and was properly billed for the requested services. However, Allstream submitted SPI forms that improperly allocated the network access assessment surcharge between the Beneficiary's voice and internet services. The net result was Allstream could have invoiced SLP for an additional \$7,617 (\$70,470 - \$62,863 to the internet access services FRN 1799036731 for the NAA charges), and then would have also invoiced \$2,539 less for the voice service.

Considering that Allstream's error was administrative in nature, and the time to correct the under billing has passed, we respectfully request that USAC provide a net credit of \$5,078 (\$7,617 - \$2,539), which we would then pass on to the Beneficiary. Alternatively, we request that USAC not seek recovery of the \$2,539 for FRN 1799036738, and in turn, Allstream will not seek to address the \$7,617 that was under-invoiced to SLP for FRN 1799036731.

Allstream will immediately implement controls and procedures to ensure USAC is invoiced for the correct discounted amount for the correct FRN going forward.

AAD RESPONSE TO SERVICE PROVIDER RESPONSE

The Service Provider, Allstream (formerly Eschelon Telecom of Arizona), stated in its response that "considering... [the] error was administrative in nature, and the time to correct the under billing [under FRN 1799036731] has passed... [they] respectfully request that USAC provide a net credit of \$5,078 (\$7,617 - \$2,539), which [they] would then pass on to the Beneficiary. Alternatively, [they] request that USAC not seek recovery of the \$2,539 for FRN 1799036738, and in turn, Allstream will not seek to address the \$7,617 that was under-invoiced to SLP for FRN 1799036731." AAD does not have the authority to waive the Rules (i.e. make recommendations contrary to the Rules). The Rules state that the Service Provider can be reimbursed based on the eligible amount billed to the customer multiplied by the discount rate on the Funding Commitment Decision letter (FCDL).¹⁰ The Rules also state the following:

"The filing service provider must be the entity whose SPIN [Service Provider Identification Number] is associated with a service or group of services in a USAC approved FRN [Funding Request Number]. An FRN identifies a service

¹⁰ Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide, at pg. 11

or group of services for which an applicant has requested funding on their FCC Form 471, Description of Services Ordered... USAC will issue an FCDL to each applicant that submitted the FCC Form 471 and to each service provider identified on an FCC Form 471 as the provider of the services for which discounts have been requested. The FCDL will identify the discount amount that has been approved for each ... (FRN) as well as the Service Provider Identification Number (SPIN) for the service provider that is authorized to provide the discounted services.”¹¹

Therefore, the amounts associated with each FRN must be disbursed as approved and authorized on the FCDL. The over-invoicing under FRN 1799036738 is treated separately from the under-invoicing identified under FRN 1799036731 and cannot be netted. AAD reiterates that because 1) the Service Provider over-invoiced the SLP and SLP disbursed \$2,539 of internet access services under the voice FRN 179936738 and 2) AAD does not have the authority to waive the rules; AAD’s position on this finding remains unchanged.

However, AAD recommends that the Service Provider contact SLP for further information.

Finding #3: In the Matter of Schools & Libraries Universal Service Support Mechanism, Fifth Report and Order and Order, CC Docket No. 02-6, FCC 04-190, 19 FCC Rcd 15808, 15816, ¶ 24 – Untimely Payment of Beneficiary’s Non-Discounted Share to the Service Provider

CONDITION

AAD obtained and examined service provider bills and check payments made to Eschelon Telecom (Service Provider) to determine whether the Beneficiary paid its non-discounted share of services purchased with SLP-funded discounts.¹² The Beneficiary did not pay its non-discounted share to the Service Provider within the timeframe that the FCC considers to be reasonable and timely (e.g., within 90 days after delivery of service). For FRNs 1799036731 and 1799036738, the Service Provider billed the Beneficiary for internet access and voice services for each month during the funding year. However, for the December 2017 to May 2018 bills, the Beneficiary did not make its payment on these bills until August 31, 2018, as noted below:

Service Provider Bill Date	Check Payment Date
12/18/2017	8/31/2018
1/18/2018	8/31/2018
2/18/2018	8/31/2018
3/18/2018	8/31/2018
4/18/2018	8/31/2018
5/18/2018	8/31/2018

Although the Beneficiary paid its full undiscounted share of the costs for the SLP-funded services, it did not pay its share of services in a timely manner (e.g., within 90 days after delivery of service).¹³

¹¹ Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide, at pages 3 and 4

¹² 47 C.F.R. § 54.523 (2016).

¹³ Fifth Report and Order at 15816, para. 24 (2004).

CAUSE

The Beneficiary did not have an adequate process in place to ensure service provider bills are paid in a timely manner (*e.g.*, within 90 days after delivery of service). The service provider billed the Beneficiary one hundred percent of cost of services upfront, and did not apply E-rate credits to the bills. The Beneficiary believes that had it paid these amounts, there would be a large credit balance on the schools' account when the E-rate credits are finally applied. Therefore, the Beneficiary waited until the Service Provider applied the E-rate credits to the bills before paying for its share of the bills. The Beneficiary intends to make monthly payments moving forward.

EFFECT

There is no monetary effect for this finding as the Beneficiary paid its non-discounted share to the Service Provider prior to the completion of the audit. However, by not making payments in a timely manner, there is an increased risk that the Beneficiary may not pay its non-discounted share.

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure that it pays its non-discounted share of costs within a reasonable timeframe (*e.g.*, within 90 days after delivery of service).

BENEFICIARY RESPONSE

The School has set up automatic payments moving forward, so there will not be a lapse in payments moving forward.

CRITERIA

Finding	Criteria	Description
#1	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 25 (2004) (Fifth Report and Order).</i>	<i>Duplicative Services.</i> As noted in the Schools and Libraries Second Order, our rules prohibit the funding of duplicative services, defined as services that provide the same functionality to the same population in the same location during the same period of time. In such circumstances, we ordinarily will recover the amount associated with the more expensive of the duplicative services, except in situations where there are indications of fraud, where we may recover the full amount of the funding request.
#1	Schools And Libraries Eligible Services List For Funding Year 2017 (September 12, 2016), Page 7	Seeking support for data plans or air cards for mobile devices for use in a school or library with an existing broadband connection and wireless local area network implicates the E-rate program’s prohibition on requests for duplicative services
#2	Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide at pg. 11 (Apr. 2017) (FCC Form 474 (SPI) User Guide)	<p>Item (11) – Total (Undiscounted) Amount for Service per FRN. This item represents the total undiscounted monthly and one-time charges for all eligible services on the individual invoice or bill issued to the customer. This item represents the total price for eligible services before any eligible discount is applied. The total undiscounted amount may include all reasonable associated charges, such as federal and state taxes, that the customer incurs when they obtain services.</p> <p>Item (13) – Discount Amount Billed to USAC. Calculate this item by multiplying the Total (Undiscounted) Amount for Service per FRN amount in Item 11 by the applicant’s Discount Rate in Item 12. This total is the amount of funds that the service provider is requesting that USAC reimburses them for on this invoice. This is the amount of support that, when combined with the school or library payment to the service provider, equals the Total (Undiscounted) Amount for Service per FRN</p>
#2	Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide at pg. 3 and 4 (Apr. 2017) (FCC Form 474 (SPI) User Guide)	The filing service provider must be the entity whose SPIN [Service Provider Identification Number] is associated with a service or group of services in a USAC approved FRN [Funding Request Number]. An FRN identifies a service or group of services for which an applicant has requested funding on their FCC Form 471, Description of Served Ordered and Certification Form. USAC will issue an FCDL to each applicant that submitted the FCC Form 471 and to each service provider identified on an FCC Form 471 as the provider of the services for which discounts have been requested. The FCDL will identify the discount amount that has been approved for each Funding Request Number (FRN) as well as the Service Provider Identification Number (SPIN) for the service provider that is authorized to provide the discounted services
#3	47 C.F.R. § 54.523 (2016)	An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts.

Finding	Criteria	Description
#3	Fifth Report and Order, 19 FCC Rcd 15816, para. 24 (2004)	<i>Failure to Pay Non-discounted Share.</i> 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.

ATTACHMENT W

SL2018LR008



Tuscaloosa County School District

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2018LR008

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EXECUTIVE SUMMARY

August 13, 2020

Dr. Keri Johnson, Superintendent
Tuscaloosa County School District
1118 Greensboro Avenue
Tuscaloosa, AL 35401

Dear Dr. Johnson:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the Tuscaloosa County School District's (Beneficiary), Billed Entity Number (BEN) 127973, compliance with regulations and orders governing the Beneficiary's purchase of internal connections supported by the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit of the Beneficiary's Schools and Libraries Program funded internal connections.

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

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Teleshia Delmar".

Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Recovery ¹ (B)	Recommended Recovery (A)-(B)
Finding #1: 47 C.F.R. § 54.507(d) - Untimely Implementation of Non-recurring Services. Equipment was being stored at the Beneficiary's Central Office and was not installed by the service implementation deadline.	\$65,160	\$0	\$65,160
Finding #2: 47 C.F.R. § 54.502(a) - Service Provider Over-Invoiced SLP for Ineligible Services. The Service Provider did not deduct the pre-discounted cost of ineligible services related to "3 year Premium Education support," which was a separate and identifiable cost on the bill, from its SPI form prior to submitting its invoice to SLP.	\$39,200	\$6,560	\$32,640
Finding #3: 47 C.F.R. § 54.513(d) - Inaccurate Fixed Asset Listing and Failure to Notify USAC of Equipment Transfer. The Beneficiary's fixed asset listing did not include 17 pieces of equipment requested in the FCC Form 471 and billed by the service provider. Also, seven pieces of equipment were installed at two locations in excess of the number of pieces of equipment that had been requested on the FCC Form 471.	\$ 8,640	\$0	\$8,640
Total Net Monetary Effect	\$113,000	\$6,560	\$106,440

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

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amounts. If there are other FRNs under the scope of the findings there will be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Beneficiary and Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/before-youre-done/transfer-of-equipment/>
- <https://www.usac.org/e-rate/applicant-process/before-youre-done/service-delivery/>
- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>
- <https://www.usac.org/e-rate/learn/webinars/> Click “The E-rate Invoicing Process”

USAC records show the Beneficiary and Service Provider are currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiary and Service Provider to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount
2782882	\$41,045
1699063593	\$65,395
Total	\$106,440

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 internal connections for Funding Years 2015 and 2016 (audit period):

Service Type	Funding Year	Amount Committed	Amount Disbursed
Internal Connections	2015	\$1,231,736	\$1,231,728
	2016	\$927,633	\$698,715
Total		\$2,159,369	\$1,930,443

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

The committed total represents two FCC Form 471 applications with seven Funding Request Numbers (FRNs). AAD selected three of the seven FRNs,² which represent \$900,498 of the funds committed and \$671,580 of the funds disbursed during the audit period for internal connections, to perform the procedures enumerated below with respect to the Funding Years 2015 and 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a public school district located in Tuscaloosa, Alabama that serves over 18,000 students.

PROCEDURES

AAD performed the following procedures:

A. Invoicing Process

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

B. Site Visit

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

² The FRNs included in the scope of this audit were: 2782882, 1699063593, and 1699063694.

C. Reimbursement Process

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

DETAILED AUDIT FINDINGS

FINDING #1: 47 C.F.R. § 54.507(d) - Untimely Implementation of Non-Recurring Services

CONDITION

AAD obtained and examined the Beneficiary's FCC Form 471 and corresponding fixed asset listing (FAL) to determine whether all internal connections equipment purchased under FRNs 2782882 for Funding Year (FY) 2015 and 1699063593 for FY 2016 was installed in the correct locations in a timely manner. AAD conducted a site visit in June 2018 and performed a physical inventory of the model AP230 wireless access points (WAPs) requested and received for both FRNs. AAD identified 181 WAPs that were not yet installed and were being stored in the Beneficiary's Central Office location. Therefore, AAD determined that the 181 WAPs that were purchased under FRNs 2782882 and 1699063593 were not installed and operational prior to the service implementation deadlines of September 30, 2016 and September 30, 2017, respectively.³

CAUSE

The Beneficiary did not have adequate controls and processes in place to ensure the SLP funded equipment requested and received was installed in the approved eligible locations and operational by the implementation deadlines. The Beneficiary informed AAD that the equipment was being temporarily stored in the Beneficiary's Central Office and that the equipment would be installed in Holt High School, which AAD noted was under construction at the time of AAD's site visit.

EFFECT

The monetary effect of this finding is \$65,160. This amount represents the discounted cost of the 181 uninstalled WAPs identified during the site visit for FRNs 2782882 and 1699063593, as summarized below:

FRN	Quantity	Unit Price	Total Price	Discount Rate	Discounted Cost
2782882	21	\$450	\$9,450	80%	\$7,560
1699063593	160	\$450	\$72,000	80%	\$57,600
Total	181				\$65,160

RECOMMENDATION

AAD recommends that USAC management seek recovery of \$65,160. The Beneficiary must implement controls and procedures to ensure it requests SLP support only for equipment and services that will be used primarily for educational purposes in the funding year in which the support is requested and installs services and equipment by the implementation deadline, as required by the Rules.

BENEFICIARY RESPONSE

Per discussion with the Previous *[sic]* Erate Coordinator, the new school was set for completion at the time of the request of USAC funds. Due to weather, the construction of new schools' completion was delayed. The previous Erate Coordinator failed to submit a [FCC] [F]orm 500 to amend the request for funds. The TCSS

³ See 47 C.F.R. § 54.507(d)(4) (2014).

technology department has implemented new procedures and controls designated to the Data Manager to take inventory of items coming in and place in the Follette inventory system. At that time a label is made with the following information. [sic] Unique Name of each item, Funding year, GL Code, [and] ASSET number. These new procedures and controls will ensure requests for SLP support for equipment and services will be in the funding year in which the support is requested and [that TCSS] installs services and equipment by the implementation deadline.

FINDING #2: 47 C.F.R. § 54.502(a) - Service Provider Over-Invoiced SLP for Ineligible Services

CONDITION

AAD obtained and examined the FCC Form 472 Service Provider Invoice (SPI) form and the corresponding service provider bills to determine whether the Schools and Libraries Program (SLP) was invoiced only for eligible services for FRNs 2782882 and 1699063593. Howard Technology Solutions (Service Provider) invoiced SLP on the SPI forms for a total pre-discounted amount of \$450,000 for FRN 2782882 and \$98,325 for FRN 1699063593. Among the services billed, the Beneficiary was billed by the Service Provider for “3 year Premium Education support,” which was a separate and identifiable cost on the bill. However, a multi-year warranty on internal connections is only eligible when “provided as an integral part of an eligible component, **without a separately identifiable cost** [emphasis added].”⁴ The pre-discounted amounts charged on the service provider bills for the ineligible warranty was \$40,000 for FRN 2782882 and \$9,000 for FRN 1699063593. Therefore, the Service Provider over-invoiced SLP for ineligible pre-discounted costs of \$49,000 (\$40,000 + \$9,000), resulting in SLP over-disbursing \$39,200 (\$49,000 * the Beneficiary’s 80 percent discount rate).

CAUSE

The Service Provider did not have adequate controls and procedures in place to ensure that SLP is invoiced only for the discounted costs of approved, eligible services delivered and billed to the Beneficiary. The Service Provider did not perform a thorough review of the service provider bills to determine whether the services were included in the *Schools and Libraries Universal Service Support Mechanism - Eligible Services List*.

EFFECT

The monetary effect of this finding is \$39,200. This amount represents the total discounted costs of the ineligible services that was invoiced to and disbursed by SLP for FRNs 2782882 and 1699063593, as follows:

FRN	Pre-Discounted Cost	Discount Rate	Discounted Cost
2782882	\$40,000	80%	\$32,000
1699063593	\$9,000	80%	\$7,200
Total			\$39,200

⁴ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, 29 FCC Rcd. 13404, 13411-12, para. 19 (2014) for Funding Year 2015; and *In the matter of Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, 30 FCC Rcd. 9923, 9937 (2015). for Funding Year 2016.

RECOMMENDATION

AAD recommends that USAC management seek recovery of \$39,200. The Service Provider must implement controls and procedures to ensure that an adequate review of the SPI forms and corresponding bills is performed to remove ineligible services from the SPI form prior to submission to SLP to ensure that SLP is invoiced only for eligible services.

BENEFICIARY RESPONSE

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

SERVICE PROVIDER RESPONSE

Howard Technology Solutions invoiced all items that were E-Rate eligible on the customers [FCC Form] 471. However, Howard Technology Solutions made an error in the format of our invoice to USAC for the FRN's 2782882 & 1699063593. We should have submitted our invoices like the customer had submitted their [FCC Form] 471. All line items should have been listed as one.

Finding #3: 47 C.F.R. § 54.513(d) – Inaccurate Fixed Asset Listing and Failure to Notify USAC of Equipment Transfer

CONDITION

AAD obtained and examined the Beneficiary's FCC Form 471, service provider bills, and Fixed Asset Listing (FAL) to determine whether all internal connections equipment purchased and received for FRNs 2782882 and 1699063593 was properly recorded on the FAL and installed in the correct locations in a timely manner. For FRN 2782882, the Beneficiary requested and received 1,000 wireless access points (WAPs) per the FCC Form 471 and service provider bills; however, the Beneficiary's FAL only listed 985 WAPs, resulting in a total variance of 15 WAPs. For FRN 1699063593, the Beneficiary requested and received 225 WAPs per the FCC Form 471 and service provider bills; however, the Beneficiary's FAL only listed 223 WAPs, resulting in a variance of 2 WAPs. Therefore, 17 WAPs that were requested in the Beneficiary's FCC Form 471 and received per the service provider bills were not accounted for in the Beneficiary's FAL.

In addition, AAD conducted a site visit to a sample of 15 of the Beneficiary's schools in June 2018 and noted that more WAPs were installed than were requested on the FCC Form 471 for the following locations:

School	Quantity Requested Per FCC Form 471	Quantity Installed per Site Visit Observation	Quantity Installed in Excess of Requested
Davis-Emerson Middle	19	22	3
Faucett-Vestavia Elementary	23	27	4
Total Installed in Excess of Requested			7

Although the Beneficiary transferred equipment to eligible locations, the locations in which the equipment was transferred from were not permanently or temporarily closed and the Beneficiary did not notify USAC of the equipment transfers as required by the Rules. In addition, the Beneficiary was required to seek support for category two services on a school-by-school basis using the number of students in each school to

determine the eligible pre-discount amount for each school.⁵ If the Beneficiary determined that it would not use all of its SLP supported category two funds at a particular school and determined that the funds were necessary at another school, it should have submitted a FCC Form 500 to transfer the SLP supported funds among its individual school category two budgets. Because the Beneficiary installed equipment in excess of the number of pieces of equipment requested in its FCC Form 471 and did not submit a FCC Form 500, the excess equipment was not approved by SLP and, therefore, not eligible for SLP support.

CAUSE

The Beneficiary did not have adequate controls and procedures in place to ensure that accurate inventory records are maintained and that the SLP funded equipment requested and received was installed and operational in the approved eligible locations. Also, the Beneficiary did not perform an adequate needs assessment to determine the amount of equipment needed at each location.

EFFECT

The monetary effect of this finding is \$8,640. This amount represents the total amount disbursed by SLP for the 17 WAPs that were requested in the Beneficiary's FCC Form 471 and billed by the service provider but not accounted for on the Beneficiary's FAL and the 7 WAPs installed in excess of the quantity requested on the FCC Form 471 for each location, as summarized below:

FRN	Quantity	Unit Price	Total Price	Discount Rate	Discounted Cost
2782882	19	\$450	\$8,550	80%	\$6,840
1699063593	5	\$450	\$2,250	80%	\$1,800
Total	24				\$8,640

RECOMMENDATION

AAD recommends USAC management seek recovery of \$8,640. The Beneficiary must implement controls and procedures to ensure that all equipment is accounted for in the correct locations on its FAL and that the FCC Form 471 includes an accurate request for services and equipment for each school location.

BENEFICIARY RESPONSE

The previous Erate Coordinator failed to submit a [FCC] [F]orm 500 to amend the request for funds. The TCSS technology department has implemented new procedures and controls designated to the Data Manager to take inventory of items coming in and place in the Follette inventory system. At that time a label is made with the following information. [sic] Unique Name of each item, Funding [Y]ear, GL Code, [and] ASSET number. These new procedures and controls will that [sic] all equipment is accounted for in the correct locations on its FAL and that the FCC Form 471 includes an accurate request for services and equipment for each school location.

⁵ *In the Matter of Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, para. 104 (2014) (*E-rate Modernization Order*).

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.507(d) (2014).	<p>The deadline for implementation of non-recurring services will be September 30 following the close of the funding year. An applicant may request and receive from the Administrator an extension of the implementation deadline for non-recurring services if it satisfies one of the following criteria:</p> <p>(1) The applicant's funding commitment decision letter is issued by the Administrator on or after March 1 of the funding year for which discounts are authorized;</p> <p>(2) The applicant receives a service provider change authorization or service substitution authorization from the Administrator on or after March 1 of the funding year for which discounts are authorized;</p> <p>(3) The applicant's service provider is unable to complete implementation for reasons beyond the service provider's control; or</p> <p>(4) The applicant's service provider is unwilling to complete installation because funding disbursements are delayed while the Administrator investigates the application for program compliance.</p>
#2	47 C.F.R. § 54.502(a) (2014).	All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (b) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms.
#2	<i>Schools and Libraries Universal Service Support Mechanism</i> , CC Docket No. 02-6, Order, 29 FCC Rcd. 13404, 13411-12, para. 19 (2014); and <i>In the matter of Modernizing the E-Rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Order, 30 FCC Rcd. 9923, 9937 (2015).	A manufacturer's multi-year warranty for a period up to three years that is provided as an integral part of an eligible component, without a separately identifiable cost, may be included in the cost of the component.

#3	47 C.F.R. § 54.513(d) (2014).	Eligible services and equipment components of eligible services purchased at a discount under this subpart shall not be transferred, with or without consideration of money or any other thing of value, for a period of three years after purchase, except that eligible services and equipment components of eligible services may be transferred to another eligible school or library in the event that the particular location where the service originally was received is permanently or temporarily closed. If an eligible service or equipment component of a service is transferred due to the permanent or temporary closure of a school or library, the transferor must notify the Administrator of the transfer, and both the transferor and recipient must maintain detailed records documenting the transfer and the reason for the transfer for a period of five years.
#3	<i>In the Matter of Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, para. 104 (2014) (<i>E-rate Modernization Order</i>).	Applicants will be required to seek support for category two services on a school-by-school and library-by-library basis, although school districts will use a single district-wide discount rate for all of their schools, as will library systems for all of their libraries. Under this approach, school districts, whether public or made up of more than one independent school under central control, will have the flexibility to request support for any school or group of its schools each funding year, using the number of students in any school getting LAN/WLAN upgrades to determine the maximum eligible pre-discount amount in a given funding year for that school. This flexibility will allow districts to decide how to sequence deployment of LANs/WLANs based on their individual needs.

ATTACHMENT X

SL2017SP078

WiscNet

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017SP078

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EXECUTIVE SUMMARY

July 21, 2020

Shaun Abshere, Deputy CEO
WiscNet
605 Science Dr.
Madison, WI 53711

Dear Mr. Abshere:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of WiscNet (Service Provider), Service Provider Identification Number (SPIN) 143004351, for Funding Year 2016, using regulations and orders governing the federal Universal Service Schools and Libraries Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of the Service Provider's management. AAD's responsibility is to make a determination regarding the Service Provider's compliance with the Rules based on the limited review performance audit.

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

Based on the test work performed, our examination disclosed one detailed audit finding (Finding) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in cursive script that reads "Teleshia Delmar".

Teleshia Delmar

USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer

Craig Davis, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice (SPI) Form (FCC Form 474), OMB 3060-0856, at 1-2 (July 2013) - Service Provider over-Invoiced SLP for Services. The Service Provider incorrectly submitted a SPI Form for internet access services under the internal connections FRN and internal connections equipment under the internet access FRN.	\$9,117	\$9,117	\$9,117
Total Net Monetary Effect	\$9,117	\$9,117	\$9,117

USAC MANAGEMENT RESPONSE

USAC management concurs with the audit results stated above. See chart below for the recovery amounts. If there are other FRNs under the scope of the findings, there will be additional recoveries and/or commitment adjustments. USAC will request the Service Provider provide copies of policies and procedures implemented to address the issues identified.

USAC refers the service provider to our website for additional resources. Various links are listed below.

- <https://www.usac.org/e-rate/learn/videos/#Invoicing>
- <https://www.usac.org/e-rate/trainings/online-training/training-series-for-service-providers/>

USAC has subscribed the Service Provider to Schools and Libraries weekly News Brief. USAC encourages the Service Provider to review the News Brief as it contains valuable information about the E-rate Program.

FRN	Recovery Amount	Commitment Adjustment Amount
1699015790	\$4,558	\$4,558
1699015800	\$4,559	\$4,559
Total	\$9,117	\$9,117

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

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

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$36,245	\$23,572
Managed Internal Broadband Services	\$9,329	\$2,580
Internet Access	\$2,465,535	\$1,992,470
Total	\$2,511,109¹	\$2,018,622²

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

The committed total represents 352 FCC Form 471 applications with 357 Funding Request Numbers (FRNs). AAD selected 13 FRNs of the 357 FRNs,³ which represent \$304,998 of the funds committed and \$275,064 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 selected Beneficiaries.

BACKGROUND

The Service Provider provides internet access, internal connections, and managed internal broadband services to customers in Wisconsin. Its headquarters are located in Madison, Wisconsin.

PROCEDURES

AAD performed the following procedures:

¹ Subsequent to the date of the commencement of the audit, there was a downward adjustment of amounts committed for internal connections, managed internal broadband services and internet access services. As of the date of this report, the total amount committed is \$2,486,775. The FRNs AAD selected to perform the procedures enumerated below represent \$0 of the revised committed amount.

² Subsequent to the date of the commencement of the audit, additional funds were disbursed to the Service Provider for Internet access and Managed Internal Broadband services. As of the date of this report, the total amount disbursed is \$2,222,378. The FRNs AAD selected to perform the procedures enumerated below represent \$24,113 of the additional funds disbursed. However, the disbursement amounts related to the FRNs applicable to Finding #1 remain unchanged as of the commencement date of the audit.

³ The FRNs included in the scope of this audit were: 1699014386 , 1699015790 , 1699015800 , 1699018944, 1699051425, 1699051431, 1699051437, 1699033451, 1699065236, 1699075253, 1699091986 , 1699093273 , 1699121669.

A. Eligibility Process

AAD obtained an understanding of the Service Provider's processes and internal controls governing its participation in the Schools and Libraries Program. Specifically, AAD used inquiry of the Service Provider and the selected Beneficiaries and examined documentation to determine whether controls exist to ensure equipment and services were eligible, delivered, and installed in accordance with the Rules. AAD used inquiry and examined documentation to determine whether the Service Provider assisted with the completion of the selected Beneficiaries' FCC Form 470.

B. Competitive Bid Process

AAD used inquiry and examined documentation to determine whether the Service Provider participated in or appeared to have influenced the selected Beneficiaries' competitive bidding process. AAD reviewed the Service Provider's contracts (if applicable) with the selected Beneficiaries to determine whether the contracts were properly executed. AAD evaluated the equipment and services requested and purchased to determine whether the Service Provider provided the equipment and services requested in the selected Beneficiaries' FCC Form 471. AAD also examined documentation to determine whether the Service Provider offered the selected Beneficiaries the lowest corresponding price charged for similar equipment and services to non-residential customers similarly situated to the selected Beneficiaries.

C. Billing Process

AAD reviewed the FCC Form 472 Billed Entity Applicant Reimbursements (BEARs) and FCC Form 474 Service Provider Invoices (SPIs) for which payment was disbursed by USAC to determine whether the equipment and services identified on the BEARs and SPIs, and corresponding service provider bills, were consistent with the terms and specifications of the Service Provider's contracts and eligible in accordance with the Schools and Libraries Program Eligible Services List. AAD also examined documentation to determine whether the Service Provider charged the selected Beneficiaries the lowest corresponding price charged for similar equipment and services to non-residential customers similarly situated to the selected Beneficiaries. In addition, AAD examined documentation to determine whether the Service Provider billed the selected Beneficiaries for the non-discounted portion of eligible equipment and services purchased with universal service discounts and did not provide rebates, including free services or products.

D. Reimbursement Process

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

DETAILED AUDIT FINDINGS

Finding #1: Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice (SPI) Form, OMB 3060-0856, at 1-2 (July 2013) - Service Provider Over-Invoiced SLP for Services

CONDITION

AAD obtained and examined the service provider bills and corresponding FCC Forms 474 Service Provider Invoice (SPI) submitted for reimbursement by the Service Provider to determine whether the Schools and Libraries Program (SLP) was properly invoiced for services received by the Chippewa Falls School District (Beneficiary).

The Beneficiary requested and was approved for SLP funding for internet access (total discounted amount of \$19,238) and internal connections (total discounted amount of \$4,559) for FRNs 1699015790 and 1699015800, respectively, for Funding Year 2016. AAD determined that the Beneficiary received and was billed for the requested services. However, the Service Provider incorrectly submitted SPI Form No. 2638063 for internet access services under the internal connections FRN 1699015800 and internal connections equipment under the internet access FRN 1699015790.

AAD received a detailed explanation of the invoicing discrepancy from the Service Provider which stated, in part, that “[t]he invoices to the Beneficiary and SLD contain incorrect FRN numbers. The invoices to SLD were fixed, but the documentation in our [service provider] systems was not updated. Initially we [service provider] referenced FRN 1699015790 when billing the firewall service on the invoice to SLD. We [service provider] referenced FRN 1699015800 when billing the firewall service to the beneficiary. We [service provider] then referenced FRN 1699015800 when billing the network access service – again both on the invoice to the beneficiary and the invoice to SLD.”⁴

Because the Service Provider invoiced SLP and SLP disbursed \$4,558 of internal connections equipment for the internet access FRN under 1699015790, the Service Provider should have returned the disbursed amount, and resubmitted a new SPI Form to adjust the disbursement from the internet access FRN 1699015790 to the internal connections FRN 1699015800.

Because the Service Provider invoiced SLP and SLP disbursed \$4,559 of internet access services for the internal connections FRN under 1699015800, the Service Provider should have returned the disbursed amount, and resubmitted a new SPI Form to adjust the disbursement from the internal connections FRN 1699015800 to the internet access FRN 1699015790.

⁴ Written document from Heidi Genthner, Director of Business Operations at WiscNet (October 20, 2018).

CAUSE

The Service Provider did not have adequate procedures and controls in place to ensure that its SPI Forms applied charges to the correct FRNs and that the amounts invoiced to SLP were accurate. The Service provider did not ensure through a checks and balances system that the information on the invoices to the SLD agreed to the documentation within the Service provider system.

EFFECT

The monetary effect of this finding is \$9,117 (\$4,558 + 4,559). This amount represents the total amount that was incorrectly invoiced for the internet access FRN 1699015790 and internal connections FRN 1699015800, respectively.

RECOMMENDATION

AAD recognizes that the time period for submitting a new SPI for these FRNs has expired; thus, AAD recommends that USAC Management seek recovery of \$9,117.

AAD recommends that the Service Provider implement controls and procedures to ensure that the amounts requested on its SPI forms are accurate and include the correct FRN for the approved eligible services provided to approved entities prior to being submitted to SLP for reimbursement.

SERVICE PROVIDER RESPONSE

Since this issue occurred in 2016, WiscNet improved its checks and balances procedures by automating and importing SLD data entry forms fields into our accounting system directly from the Funds for Learning website. Manual entries, coupled with the need to store data in a separate spreadsheet that didn't integrate with our accounting system, made recording the data in the SLD forms widely prone to errors. WiscNet recognizes that automation is not a panacea. Upon uploading data into our accounting system, our financial specialists verify that the automation scripts apply the correct discounts before we issue invoices to both SLD and our members. Furthermore, the automation supports multiple invoices for schools that use various FRNs, which eliminates the risk of applying a discount to the wrong FRN. We believe these are acceptable measures to help avoid the same problem from happening in the future. Thank you for your help and valuable feedback.

CRITERIA

Finding	Criteria	Description
#1	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice (SPI) Form (FCC Form 474), OMB 3060-0856, at 1-2 (July 2013).	The FCC Form 474, Service Provider Invoice Form, is to be completed and submitted by a service provider that has provided discounted eligible services to eligible schools and libraries, in order to seek universal service support in the amount of the discounts. The service provider must have provided the service and given a discounted bill to the applicant prior to submitting the FCC Form 474.
#1	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice (SPI) Form (FCC Form 474), OMB 3060-0856, at 1-2 (July 2013).	The service provider that has provided discounted eligible services and discounted bills to eligible schools, school districts, libraries, library consortia and consortia of multiple entities, pursuant to a Funding Commitment Decision Letter (FCDL) issued by the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), must file this FCC Form 474 to seek reimbursement for the cost of the discounts. The service provider must be the entity whose Service Provider Identification Number (SPIN) is associated with a service or group of services in a Funding Request Number (FRN) approved by USAC. An FRN is a service or group of services for which funding was requested in a distinct Block 5 of the applicant's FCC Form 471, Services Ordered and Certification Form. USAC will issue an FCDL to each applicant who submitted the FCC Form 471 and to each service provider whose SPIN is identified on an FCC Form 471 as the provider of the services for which discounts have been requested. The FCDL will identify the amount of discounts that have been approved for each FRN and the SPIN for the service provider that is authorized to provide the discounted services. Throughout these Instructions, the service provider will be referred to as "you."