



Schools and Libraries Committee

Audit Report Briefing Book

Monday, October 25, 2021

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Universal Service Administrative Company

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: July - August 2021

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Fresno County Economic Opportunities Commission Attachment A	1	• No significant finding.	\$352,170	\$4,675	\$4,675	\$0	N
Project Socrates – Revised Attachment B	1	• No significant finding.	\$1,055,264	\$15,062	\$0	\$0	N
Sun Valley High School Attachment C	2	• No significant findings.	\$32,302	\$7,192	\$4,591	\$4,591	N
	4		\$1,439,736	\$26,929	\$9,266	\$4,591	

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

SL2020LS009

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

FRESNO COUNTY ECONOMIC OPPORTUNITIES COMMISSION
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE PROGRAM RULES

USAC AUDIT No. SL2020LS009



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
FRESNO COUNTY ECONOMIC OPPORTUNITIES COMMISSION
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE PROGRAM RULES**

Executive Summary

June 22, 2021

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 the Fresno County Economic Opportunities Commission (Beneficiary), Billed Entity Number (BEN) 16044605, using regulations and orders governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary’s compliance with the FCC 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 FCC 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 FCC Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and 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 one instance of non-compliance with FCC Rules, as set forth in the detailed audit finding discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
Finding No. 1, 47 C.F.R. 54.501(a) (2017) – The Service Provider Over-Invoiced the E-Rate Program for Services Delivered to an Ineligible Location. The Service Provider invoiced the E-Rate program for Internet access services provided to an ineligible location.	<u>\$4,675</u>	<u>\$0</u>	<u>\$4,675</u>
Total Net Monetary Effect	<u>\$4,675</u>	<u>\$0</u>	<u>\$4,675</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. USAC will review other invoices filed by the Beneficiary and Service Provider during the audited Fund Year that were not in the scope of this audit and there may 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/service-providers/step-5-invoicing/>
- <https://www.usac.org/e-rate/applicant-process/invoicing/>
- <https://www.usac.org/e-rate/learn/bear-training-site/>

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
1899032378	\$4,675

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Year (FY) 2018. The Beneficiary is a school district located in Fresno, California that serves more than 3,200 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2018 as of September 17, 2020, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$683,288	\$344,959
Voice	\$8,881	\$7,211
Total	<u>\$692,169</u>	<u>\$352,170</u>

The “amount committed” total represents one FCC Form 471 *Description of Services Ordered and Certification* application submitted by the Beneficiary for FY 2018 that resulted in nine Funding Request Numbers (FRNs). We selected a sample of four of the FRNs, which represent

\$606,767 of the funds committed and \$285,814 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 E-Rate program. Specifically, to determine if the Beneficiary used the funding in accordance with FCC 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 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. For those procurements for which no bids were received, we conducted inquiries to confirm that the Beneficiary did not receive any bids for the requested services. 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. We examined the service provider contracts to determine whether they were properly executed. In addition, for those procurements for which no bids were received, 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 FCC 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 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 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 E-Rate program Eligible Services List.

Detailed Audit Finding

Finding No. 1, 47 C.F.R. § 54.501(a) (2017) – The Service Provider Over-Invoiced the E-Rate Program for Services Delivered to an Ineligible Location

Condition

AT&T (the Service Provider) invoiced the E-Rate program for Internet access services provided to an ineligible location. Specifically, the Beneficiary requested and received funding for Internet access services for Head Start recipients under FRN 1899032378. However, the Service Provider’s bills and E-Rate SPI forms for this FRN included \$5,195 in charges to provide Internet access services to a building located at 3257 E. Shields Avenue.¹ This location is not a Head Start program or other school location, and the Beneficiary did not include this location as a recipient on the FCC Form 471 or in its contract with the Service Provider.

Cause

The Service Provider inadvertently included charges for the ineligible location in its Head Start program bills to the Beneficiary and its invoices to USAC. The Beneficiary did not sufficiently review the Service Provider’s bills and therefore did not detect the ineligible charges.

Effect

The Service Provider overstated its invoices to USAC by \$4,675 (\$5,195 multiplied by the Beneficiary’s 90 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
FRN 1899032378 (Internet Access)	\$4,675	\$4,675

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.

¹ See <https://www.google.com/maps/place/3257+E+Shields+Ave,+Fresno,+CA+93726/@36.7801623,-119.7699149,18z/data=!4m13!1m7!3m6!1s0x80945deb259567ab:0xadfe1c9c488987bd!2s3257+E+Shields+Ave,+Fresno,+CA+93726!3b1!8m2!3d36.780337!4d-119.76912!3m4!1s0x80945deb259567ab:0xadfe1c9c488987bd!8m2!3d36.780337!4d-119.76912?hl=en>.

2. The Beneficiary implement stronger review controls to ensure that it identifies ineligible charges on service providers' bills and works with the service provider to remove these charges before the service provider prepares its SPIs.
3. The Service Provider implement stronger review controls to ensure that SPIs are accurate and include only eligible charges before it submits the SPIs to the E-Rate program for reimbursement.

Beneficiary Response

AT&T will remit over payment to USAC in the amount of \$4,675.05. Fresno EOC Accounts Payable/Information Technology Office will monitor all billing activity to ensure ineligible charges are not erroneously added to service provider billings.

Service Provider Response

After review, AT&T has determined that \$4675.05 of E-rate discounts was disbursed related to account number 0720825775775, which is associated with 3257 E. Shields Avenue. AT&T provided discounts based on representations provided by Fresno County Economic Opportunities Commission to AT&T on their assignment of accounts for FRN 1899032378 and the signed certification provided to AT&T. Per the certification, the accounts provided to AT&T should only include eligible locations and entities approved on [FCC] [F]orm 470/471.

AT&T does not dispute the finding. AT&T will remit payment back to USAC in the amount of \$4675.05.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.501(a) (2017).	<p><u>Eligible recipients.</u></p> <p>(a) <i>Schools.</i> (1) Only schools meeting the statutory definition of “elementary school” or “secondary school” as defined in §54.500 of this subpart, and not excluded under paragraphs (a)(2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.</p> <p>(2) Schools operating as for-profit businesses shall not be eligible for discounts under this subpart.</p> <p>(3) Schools with endowments exceeding \$50,000,000 shall not be eligible for discounts under this subpart.</p>

COTTON & COMPANY LLP



Michael W. Gillespie, CPA, CFE
Partner
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Attachment B

SL2019BE025

Available For Public Use

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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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 4

CRITERIA 6



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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

August 19, 2021

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.

Our audit report was originally released on October 7, 2020. This version supercedes the report that was released on that date.

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
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.	\$15,062
Total Net Monetary Effect	<u>\$15,062</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. Since USAC does not hold a consortium financially responsible for any finding that is based on incorrect data entered by a school or library during a consortium’s special compliance review, audit, payment quality assurance (PQA) assessment or other program integrity effort, USAC will not seek recovery of funds from the consortium for this audit. 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 the E-Rate 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 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	\$1,086,433	\$1,055,264

*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 was unable to support the accuracy and reasonableness of its claimed discount rate for Internet access services under FRN 1799083930. The Rules state that 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 [NSLP]....”¹ In addition, the Rules state that, “in order to determine the budget available each funding year, districts should calculate the number of students per school at the time that they calculate their district-wide discount rate annually.”² However, rather than using the figures that *was eligible* annually as of the date of submission of its information in the E-Rate Productivity Center (EPC), some of the Beneficiary’s members used figures that were eligible from the previous school year. Specifically, five of the Beneficiary’s members used NSLP data from the 2015–2016 school year to support their FY 2017 discount rates rather than using NSLP data that was available at the time it submitted its information in EPC from the 2016–2017 school year.

The Beneficiary claimed a discount rate of 69 percent based on the average for all members receiving the E-Rate eligible services. However, based on the current NSLP data available at the time data was entered into EPC, the Beneficiary’s average consortium discount rate for all members would have been 68 percent. Therefore, the Beneficiary’s discount rate was overstated.

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 for the pre-discounted total of \$1,506,203 in eligible costs under FRN 1799083930; as a result, the Beneficiary’s overstatement caused USAC to over-disburse the Beneficiary \$15,062 (\$1,506,203 multiplied by 1 percent).

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

Recommendation

USAC’s policy, as stated in its March 17, 2017 News Brief, is that “[d]uring a consortium’s special compliance review, audit, payment quality assurance (PQA) assessment or other program integrity effort, USAC will not hold consortium financially responsible for any finding that is based on incorrect data entered by a school or library.” However, we recommend that the

¹ See 47 C.F.R. § 54.505(b)(1) (2016).

² 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, para. 115 (2014) (*E-rate Modernization Order*).

Beneficiary implement controls to ensure that its members use current NSLP data to support their discount rate calculations.

Beneficiary Response

Regarding the audit of Project SOCRATES’ compliance with Universal Service Fund (USF) Schools and Library Program (SLP), provided by Cotton & Company, LLP, Project SOCRATES agrees to the representations made during the audit, in support of rules for Funding Year (FY) 2017.

We agree with the finding and will implement controls to ensure that the consortium receives the correct discount.

We will continue to encourage members to update their EPC profiles with current-year data, as we have done, through repeated emails, meetings, and other communication. It must be noted, however, that SOCRATES as a consortium does not exercise administrative control over its members, and therefore, while we can encourage, we cannot "ensure" a member's action.

We can, however, use other means to ensure the consortium discount is correct. While EPC does not allow us to directly control the data that feeds the consortium discount, we will utilize the two avenues that we understand USAC makes available to us for doing so: reporting updated information in an FRN narrative of a [FCC Form] 471 or filing an RAL modification.

For the 2020 funding year, SOCRATES used the FRN narrative to report enrollment changes that had not been made prior to the filing window. The resulting FCDL showed a discount that is correct, documented, and verifiable.

For funding year 2021 we will file an RAL Modification to request changes to enrollment numbers that need to be made to ensure the correct discount for the consortium.

In the future, we will continue to obtain and document the current enrollment numbers for all members and will use either the FRN narrative field, or the RAL Modification process to report the correct information for any consortium members that have not updated their EPC profiles.

Criteria

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

Finding	Criteria	Description
		<p><i>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> <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</i></p>

Finding	Criteria	Description
		<p><i>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. 115.³</i>	<i>In order to determine the budget available each funding year, districts should calculate the number of students per school at the time they calculate their district-wide discount rate annually.</i>
1	<i>E-rate Modernization Order, at para. 115, n.255.⁴</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. 226.⁵</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(2014) (*E-rate Modernization Order*).

⁴ *Id.* at n.255.

⁵ *Id.* at para. 226.

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 C

SL2019BE031

Available For Public Use

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

SUN VALLEY HIGH SCHOOL

**COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE PROGRAM RULES**

USAC AUDIT No. SL2019BE031



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
SUN VALLEY HIGH SCHOOL
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE PROGRAM RULES**

Executive Summary

June 22, 2021

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 Sun Valley High School (Beneficiary), Billed Entity Number (BEN) 209182, using regulations and orders governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary’s compliance with the FCC 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 FCC 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 the FCC Rules that were in effect during the audit period.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and 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 FCC Rules, as set forth in the two 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. § 54.511(a) (2016) – Failure to Comply with Competitive Bidding Requirements – Price Was Not the Primary Factor. The Beneficiary did not award the lowest cost bid the most favorable score in the price criterion when it evaluated bids submitted for internal connections under Funding Request Number (FRN) 1799106191 and, therefore, did not demonstrate it selected the most cost-effective bidder.</p>	\$4,591	\$0	\$4,591	\$4,591

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

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

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

Finding No. 2, 47 C.F.R. § 54.507(d) (2016) – Beneficiary Failed to Implement Non-Recurring Services. The Beneficiary did not install four of the six pieces of Category 2 equipment for which it received funding under FRN 1799106191.	\$2,601	\$2,601	\$0	\$0
Total Net Monetary Effect	<u>\$7,192</u>	<u>\$2,601</u>	<u>\$4,591</u>	<u>\$4,591</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. USAC will review the FCC Form 470 relating to the competitive bidding issue and if there are other FRNs that cite that FCC Form 470, there may 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 Beneficiary 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/learn/webinars/> “FCC Form 470 and Competitive Bidding Office Hour”
- <https://www.usac.org/e-rate/applicant-process/before-youre-done/transfer-of-equipment/>

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
1799106191	\$4,591	\$4,591

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Year (FY) 2017. The Beneficiary is a charter school located in Mesa, Arizona that serves approximately 700 students.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Beneficiary for FY 2017 as of January 27, 2020, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$6,352	\$6,352
Data Transmission and/or Internet Access	27,000	24,770
Voice	1,515	1,180
Total	<u>\$34,867</u>	<u>\$32,302</u>

The “amount committed” total represents two FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2017 that resulted in five FRNs. We selected a sample of three of the FRNs, which represent \$32,799 of the funds committed and \$30,451 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 E-Rate program. Specifically, to determine if the Beneficiary used the funding in accordance with FCC 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 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 did not perform a site visit; however, we obtained and reviewed photographs of the equipment to determine whether it was properly delivered and installed, located in eligible facilities, and used in accordance with FCC 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 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 E-Rate 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 incorrectly evaluated bids submitted for internal connections under FRN 1799106191 and, as a result, did not demonstrate it selected the most cost-effective service provider. Specifically, in evaluating the price of the bids, the Beneficiary assigned the second-to-lowest cost bidder 35 points, which was a more favorable score than the 25 points it assigned the lowest cost bidder. Had the lowest cost bidder received the more favorable score in the price criterion, a recalculation of the total scores awarded in the Beneficiary's bid evaluation suggests the lowest cost bid would have been the winning bid. The lowest cost bidder's total pre-discounted price quoted for equipment and shipping was \$4,508, \$475 less than the winning bidder's price of \$4,983.

Cause

The Beneficiary did not have adequate policies and procedures in place to ensure that it properly and accurately evaluated all bids received.

Effect

The Beneficiary did not demonstrate it awarded the internal connections contract to the most cost-effective service provider. Total USAC commitments and disbursements for this FRN were

\$4,591 (\$5,401 total pre-discount cost (including freight and taxes) multiplied by the Beneficiary’s 85 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
FRN 1799106191 (Internal Connections)	\$4,591	\$4,591	\$4,591

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 to ensure that it bases its bid awards on accurate evaluations.

Beneficiary Response

Sun Valley High School (SVHS) has worked diligently to implement more robust procedures for a fair and open bidding process. In addition to many improvements instituted, SVHS created a more definitive evaluation to analyze bids received for products and services requested. Additionally, we optimized new resources to track, install, and maintain equipment that arrives on campus. Before this audit, we noticed some inconsistencies and made an immediate personal [sic] change to ensure that our E-[R]ate practices continued to be followed with fidelity.

Sun Valley High School’s current E-[R]ate coordinator has implemented additional policies and procedures that have improved our practices and policies. With the elimination of the prior personnel, the improvement of all of our systems and processes, Sun Valley High School intends to mitigate any reoccurrence of the findings referred to in this audit for Funding Year 2017.

Finding No. 2, 47 C.F.R. § 54.507(d) (2016) – Beneficiary Failed to Implement Non-Recurring Services

Condition

The Beneficiary did not install all of the Category 2 equipment for which it received funding under FRN 1799106191. Specifically, the Beneficiary only installed two of the six switches purchased. The Beneficiary did not install the remaining four switches, and they are no longer in the Beneficiary’s possession.

Cause

The Beneficiary did not have sufficient internal controls in place to ensure that it tracked and used equipment purchased with E-Rate funds. The Beneficiary stated that it had delayed the switch installation because of a reorganization and cleanup in the student services/server area. During the reorganization, personnel accidentally discarded the boxes containing the four switches.

Effect

The Beneficiary did not install \$3,060 of equipment purchased using E-Rate funding (four switches at a cost of \$765 per switch). As a result, the monetary effect of this finding is \$2,601 (\$3,060 multiplied by the Beneficiary’s 85 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
FRN 1799106191 (Internal Connections)	\$2,601	\$2,601

Recommendation

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary establish and implement controls to ensure that it tracks and uses purchased E-Rate equipment effectively.

Beneficiary Response

The Beneficiary’s response to both audit findings is presented in Finding No. 1.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.511(a) (2016)	<i>Selecting a provider of eligible services. In selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.</i>
2	47 C.F.R. § 54.507(d)(4) (2016)	<i>The deadline for implementation of all 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: (i) 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; (ii) The applicant receives a service provider change authorization or service substitution authorization from</i>

Finding	Criteria	Description
		<p><i>the Administrator on or after March 1 of the funding year for which discounts are authorized;</i></p> <p><i>(iii) The applicant's service provider is unable to complete implementation for reasons beyond the service provider's control; or</i></p> <p><i>(iv) The applicant's service provider is unwilling to complete installation because funding disbursements are delayed while the Administrator investigates the application for program compliance.</i></p>

COTTON & COMPANY LLP



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