



Schools and Libraries Committee

Audit Report Briefing Book

Monday, October 24, 2022

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Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: July 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
San Joaquin Valley Library System Attachment A	3	<ul style="list-style-type: none"> <u>Failure to Execute a Contract Prior to Submission of the FCC Form 471</u> - The Beneficiary did not provide documentation to demonstrate that it executed a binding contract prior to the submission of the Form 471, and did not obtain the lowest rates offered during the competitive bidding process. 	\$349,422	\$122,490	\$122,490	\$122,490	Partial
Total	3		\$349,422	\$122,490	\$122,490	\$122,490	

* 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. In one instance, the total Monetary Effect exceeded the Amount of Support disbursed to the Beneficiary as additional funding requests were tested.

**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

SL2020LS007

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

SAN JOAQUIN VALLEY LIBRARY SYSTEM
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES

USAC AUDIT No. SL2020LS007



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
SAN JOAQUIN VALLEY LIBRARY SYSTEM
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

June 2, 2022

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 Assurance and Advisory, LLC (referred to as “we”) audited the compliance of the San Joaquin Valley Library System (Beneficiary or SJVLS), Billed Entity Number (BEN) 144077, 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 our 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.

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 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 the FCC Rules, as set forth in the three detailed audit findings discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
Finding No. 1, 47 C.F.R. § 54.504(a) (2017) – Failure to Execute a Contract Prior to Submission of FCC Form 471. The Beneficiary did not provide documentation to demonstrate that it executed a binding contract prior to the submission of the Form 471 and therefore did not obtain the lowest rates offered to it during the bidding process.	\$122,490	\$0	\$122,490
Finding No. 2, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 - Service Provider Over-Invoiced E-Rate for Services Not Provided. The service provider did not net a credit amount, provided in its bills to the Beneficiary, from the amounts invoiced to USAC.	\$0	\$0	\$0
Finding No. 3, 47 C.F.R. § 54.520(c)(2),(h) (2017) - Failure to Comply with the Children’s Internet Protection Act (CIPA) Requirements. The Beneficiary members’ Internet Safety Policies (ISP) did not contain all of the elements required by CIPA and one member did not provide evidence it held a public meeting to discuss the ISP.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
Total Net Monetary Effect	<u>\$122,490</u>	<u>\$0</u>	<u>\$122,490</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 *Description of Services Requested and Certification Form* relating to the competitive bidding issue and if there are other Funding Request Numbers (FRNs) not in the scope of this audit that cite that FCC Form 470, there may be additional recoveries and/or commitment adjustments. USAC will also review other invoices filed by the Service Provider during the audited Funding 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/applicant-process/competitive-bidding/>
- <https://www.usac.org/video/sl/competitive-bidding-process/story.html>
- <https://www.usac.org/e-rate/learn/webinars/> (“FCC Form 470 and Competitive Bidding Office Hour”)
- <https://www.usac.org/e-rate/resources/document-retention/>
- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>
- <https://www.usac.org/e-rate/applicant-process/before-you-begin/eligible-services-overview/>
- <https://www.usac.org/e-rate/applicant-process/starting-services/cipa/>

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 Amount
1899026084	\$122,490	\$122,490

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the FCC Rules for Funding Year (FY) 2018. The Beneficiary is a library system with a main administrative office located in Fresno, California with ten member libraries that serve across multiple counties within the state of California.

We conducted our audit from September 2020 to July 2021. The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2018 as of September 3, 2020, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$510,658	\$347,927
Voice	\$1,533	\$1,495
Total	<u>\$512,191</u>	<u>\$349,422</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 six Funding Request Numbers (FRNs). We selected a sample of two of the FRNs, which represent \$511,587 of the funds committed and \$348,854 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 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 and its members complied with the requirements of the CIPA. Specifically, we obtained and evaluated the Beneficiary and its members’ ISP and obtained an understanding of the process by which the Beneficiary and its members communicated and administered the policy.

B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly selected a service provider that provided eligible services, and 2) primarily considered the price of the eligible services 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. We examined the service provider contracts to determine whether they were properly executed. 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 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 service providers submitted to USAC for reimbursement and performed procedures to determine whether the service provider(s) 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, if applicable, and were eligible in accordance with the E-Rate Program Eligible Services List.

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 54.504(a) (2017) – Failure to Execute a Contract Prior to Submission of FCC Form 471¹

Condition

The Beneficiary did not provide evidence that it performed the steps necessary to obtain the most cost-effective rates in procuring Multiprotocol Label Switching (MPLS) Virtual Private Network (VPN) services obtained under FRN 1899026084. Specifically, in 2016, the Beneficiary submitted a FCC Form 470 and a Request for Proposal (RFP) to obtain MPLS VPN services. The Beneficiary received one bid in response to the RFP, submitted by its incumbent Service Provider. The Service Provider (AT&T) had been billing for MPLS VPN services, under a prior contract. The Service Provider's bid, submitted in March 2016, proposed the Service Provider's lower Calnet 3 prices.

The Beneficiary elected to continue with its incumbent Service Provider and awarded the services. However, the Beneficiary did not have a signed contract or legally binding agreement for internet access service prior to the submission of FCC Form 471 number 181015769. We noted that the FCC Form 471 number 181015769 was certified on March 12, 2018, and there was no signed contract or legally binding agreement among all parties.

¹ See also, 47 C.F.R. § 54.516(a)(1) (2017).

The Service Provider's Calnet 3 ordering instructions state that the Authorization To Order (ATO) "...shall become effective upon execution by Non-State Entity, Contractor, and California Department of Technology, Statewide Telecommunications and Network Division (CDT/STND). No Service(s) shall be ordered by Non-State Entity or provided by Contractor until this ATO has been executed by both parties and approved by CDT/STND." The Beneficiary's copy of the ATO was not signed by the Service Provider and was not approved by CDT/STND. The Beneficiary could not demonstrate that it followed the ordering instructions and that it had an executed ATO.

This failure to execute a contract resulted in the Service Provider continuing to bill prices at the prior contract rates, which were higher than the monthly rates for the MPLS VPN services that would have been billed under Calnet 3, as follows:

Mbps	Billed Rates	Calnet 3 Rates	Difference
1.544	\$441	\$378	\$63
3.088	\$736	\$605	\$131
6.176	\$1,220	\$931	\$289
10.8086	\$1,714	\$829	\$885
250	\$13,604	\$4,337	\$9,267

We reviewed the FY 2018 monthly costs billed by the Service Provider and determined that the total increased pre-discount costs resulting from this issue were \$136,100, as follows:

Service Date	Monthly Cost Billed	Monthly Cost Based on Calnet 3 Bid Rates	Eligible Monthly Cost Difference
Jul-18	\$35,985	\$22,592	\$13,393
Aug-18	\$35,757	\$22,592	\$13,165
Sep-18	\$33,759	\$22,214	\$11,545
Oct-18	\$33,816	\$21,609	\$12,207
Nov-18	\$31,455	\$20,625	\$10,830
Dec-18	\$30,025	\$18,661	\$11,364
Jan-19	\$28,851	\$18,283	\$10,568
Feb-19	\$28,832	\$17,526	\$11,306
Mar-19	\$28,832	\$17,526	\$11,306
Apr-19	\$28,443	\$17,526	\$10,917
May-19	\$27,544	\$16,921	\$10,623
Jun-19	\$25,191	\$16,315	\$8,876
Total	<u>\$368,490</u>	<u>\$232,390</u>	<u>\$136,100</u>

Cause

The Beneficiary and the Service Provider both failed to effectively communicate the requirements and expectations needed to move forward with the bid selection and award. The Beneficiary believed that its selection of the Service Provider and issuance of the ATO was sufficient to proceed under the new pricing, while the Service Provider did not believe that the

Beneficiary had provided sufficient information to support that it had officially selected the Service Provider's bid or placed an order using the Calnet 3 pricing. Further, the Beneficiary did not document its efforts to obtain the Service Provider's lower Calnet 3 rates. As a result of this lack of communication and the lack of an executed contract, neither party met the requirements and expectations needed to proceed with the lower prices.

Effect

The Beneficiary failed to execute a contract with its Service Provider prior to submitting its FCC Form 471, as required to receive discounts for eligible services. Further, as a result of not executing a contract, the Beneficiary did not obtain the most cost-effective rates when selecting MPLS VPN services. The total difference in eligible costs between the amounts invoiced to USAC and the amounts that the Service Provider would have invoiced had it billed the Calnet 3 rates proposed in its March 2016 bid was \$136,100. As a result, the monetary effect of this finding is \$122,490 (\$136,100 multiplied by the Beneficiary's 90 percent discount rate).

FRN/Support Type	Monetary Effect	Recommended Recovery
1899026084 MPLS	\$122,490	\$122,490

Recommendations

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above. We also recommend that USAC management examine additional FRNs associated with other funding years to determine whether similar issues exist.
2. The Beneficiary implement procedures to ensure that it complies with the FCC Rules regarding documentation and competitive bidding procedures.
3. The Service Provider implement procedures to ensure it informs beneficiaries what is required to obtain the services and prices offered in its bids.

Beneficiary Response

SJVLs disagrees with the finding that we did not provide evidence that we had performed the steps necessary to obtain the most cost-effective rates in procuring Multiprotocol Label Switching (MPLS) Virtual Private Network (VPN) services obtained under FRN 1899026084 and that we did not document the bid selection. We responded to all requests and supplied documents related to the application. We provided the Request for Proposal, proof for posting, the bid, bid matrix, and the authorization to order, which was acknowledged by the service provider as received.

Additionally, SJVLs disagrees with the finding and maintains that we properly selected a service provider that provided eligible services and primarily considered the price of the eligible services in selecting the service provider. One proposal was received. We maintain that we properly evaluated the single proposal as cost effective as memorialized by the Bid Matrix and the signed authorization to order, which is confirmed by the service provider's acknowledgement

of receipt. SJVLS management believed that the issuance of the authorization to order was a confirmation of bid award and sufficient to proceed under the new pricing. We contend that AT&T's lack of communication with SJVLS on the full scope of the service order requirements is the issue.

After SJVLS was informed of the full-service order requirements, we worked eagerly with AT&T in transferring the circuits to Calnet 3 to secure the lowest cost. It was known prior to bidding that SJVLS would require an extended amount of time to migrate circuits to Calnet 3 due to multiple reasons, including lack of access to high-speed networks and location limitations. SJVLS does agree with the finding that on the Form 471, the previous consultant erroneously filed the Form 471 using the incumbent pricing, instead of the Calnet 3 pricing.

SJVLS has worked tirelessly, within the rules of the program, to secure the cost-effective services to those difficult to reach locations as evidenced with the work done with AT&T and CENIC. We strongly feel that the data entry and communication errors should not result in a remand of funding.

Auditor Response

Neither our position regarding this finding nor our recommendations have changed. Specifically, although the Beneficiary did provide evidence to support the evaluation and selection of the Service Provider's Calnet 3 bid, the Beneficiary did not provide evidence that it performed the steps necessary to execute an order under the Calnet 3 contract and obtain the more cost-effective bid rates.

Service Provider Response

On 3/26/21 AT&T advised Cotton & Company of the following:

Two things; could you please:

- 1. Provide the Calnet 2 contract and price schedule? The link provided doesn't appear to be for this contract (which is understandable as calnet 2 is currently no longer applicable)*

Response: Thanks for your inquiry. The Calnet 2 contract was not active during the FY under review, thus the pricing for the Calnet 2 contract and price schedule is not relevant for this the FRN in scope.



RE USAC Performance Audit of San Joaquin Valley Library System ATT Invoice QuestionsRequests.msg

Thus, the Beneficiary was never on CalNet 2 contract/rates, nor did they complete the requirements to obtain CalNet 3 products/rates. In all cases, CalNet 3 products, speeds, and product names may not be like for like when comparing against non- CalNet pricing. Therefore, AT&T requires a detailed request from the Beneficiary to provide the specific CalNet 3 products that will be replacing their existing products that are billing non- CalNet 3 rates.

The billed rates for the beneficiary existing services for the funding year 2018 continued from their previous contract, although the term had expired. Therefore, since the calculations below are comparing rates from CalNet 2 to CalNet 3, the difference is not accurate.

<i>Mbps</i>	<i>Calnet 2 Rates</i>	<i>Calnet 3 Rates</i>	<i>Difference</i>
<i>1.544</i>	<i>\$441</i>	<i>\$378</i>	<i>\$63</i>
<i>3.088</i>	<i>\$736</i>	<i>\$605</i>	<i>\$131</i>
<i>6.176</i>	<i>\$1,220</i>	<i>\$931</i>	<i>\$289</i>
<i>10.8086</i>	<i>\$1,714</i>	<i>\$829</i>	<i>\$885</i>
<i>250</i>	<i>\$13,604</i>	<i>\$4,337</i>	<i>\$9,267</i>

The customer continued to bill at the rates based on products and services ordered under the contracts and not Calnet 2.

Auditor Response

We removed the previous references we had to the Calnet 2 rates from our report. However, the rates billed for the FY 2018 services still exceeded the bid Calnet 3 rates. Although the Service Provider stated that it requires a detailed request from the Beneficiary to provide Calnet 3 products and rates, we have not seen evidence to support that was communicated to the Beneficiary. Therefore, we made no change to the finding or to the recommendations.

Finding No. 2, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 - Service Provider Over-Invoiced E-Rate for Services Not Provided

Condition

The Service Provider (AT&T), invoiced USAC for amounts in excess of the total eligible charges. Specifically, we reconciled the pre-discounted amount invoiced on the Service Provider Invoice (SPI) Form for the MPLS VPN services to the Service Provider's billings and noted that the Service Provider applied a \$2,825 credit on a bill to the Beneficiary that it did not apply on its invoice to USAC.

Cause

The Service Provider overlooked the billed credit in preparing its SPI Form.

Effect

The Service Provider over-invoiced the E-Rate program \$2,543 (\$2,825 multiplied by the Beneficiary's 90 percent discount rate). The Service Provider agreed that the credit should have been applied to its SPI Form and has refunded this amount to USAC. Therefore, there is no monetary effect or recommended recovery.

Recommendation

We recommend that the Service Provider implement controls and procedures to ensure that its SPI Forms are accurate and include all credits applied to Beneficiary bills.

Service Provider Response

The Service Provider did not provide a response to this finding.

Finding No. 3, 47 C.F.R. § 54.520(c)(2),(h) (2017) - Failure to Comply with the Children's Internet Protection Act (CIPA) Requirements²

Condition

The Beneficiary did not comply with all of the requirements of CIPA. The Beneficiary is a library system comprised of ten member county-wide libraries, each of which must comply with CIPA. Under 47 C.F.R. § 54.520(c)(2)(ii), the Beneficiary's ISP must address five specific criteria. However, two members did not have all five of the required criteria in their ISPs. Specifically:

- Two members' ISPs did not include policies related to:
 - 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.
- One member's ISP did not include policies related to unauthorized access, including so-called "hacking," and other unlawful activities by minors online.

Further, before issuing its ISP, each member library must give public notice and hold a public hearing or meeting regarding the ISP. However, one member library did not provide evidence supporting that it held a public hearing.

For the reasons above, the Beneficiary was not in technical compliance with all of the CIPA requirements. However, because the Beneficiary had an ISP and a filter to monitor internet content, the Beneficiary was in substantial compliance with the spirit of the CIPA requirements.³

Cause

Although the Beneficiary certified on the FCC Form 486 *Receipt of Service Confirmation and Children's Internet Protection Act Form* that it complied with the requirements of CIPA for its applicable FY 2018 FRN, as required by the USAC application process, the Beneficiary informed us that it did not believe that CIPA compliance was a requirement for the specific FRN tested as part of the audit. In addition, the Beneficiary relies on each member library to ensure its own CIPA compliance. As such, the Beneficiary did not confirm that each member library was in compliance with CIPA before it submitted its FCC Form 486 certifying that the library system was in compliance with CIPA.

² See also, 47 C.F.R. § 54.516(a)(1)(2017).

³ 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).

Effect

There is no monetary effect for this finding. While the Beneficiary may not have been in technical compliance with all of the CIPA requirements for FRN 1899026084, the Beneficiary substantially complied with the spirit of the CIPA requirements.

Recommendation

We recommend that the Beneficiary implement policies and procedures to ensure that its members comply with CIPA. In addition, we recommend that the Beneficiary's member libraries revise their current ISPs to ensure that all five ISP requirements are addressed. Further, the Beneficiary's member library that failed to hold a public meeting must cure its CIPA violation within six months following receipt of the audit report by providing reasonable public notice and holding a public meeting or hearing to address its ISP as required by FCC Rules and CIPA requirements.

Beneficiary Response

Specific to Finding 3, we were missing documents as related to CIPA and we agree with the finding in this incidence. Further, SJVLS has reviewed the audit finding and understands what the auditors have found. We are in the process of making adjustments that would prevent similar audit findings in the future. We would like to note that the services audited are for telecommunications and point to point services, neither of which require CIPA compliance. This was discussed with the auditors. Lastly, SJVLS conducted a Public Notice (hearing or meeting). The library's procedure in 2002 was to post the Board Meeting Agenda on a public bulletin board and to leave printed copies out for patrons to take. A Public Board Meeting to review the Internet Safety Policy for the library was conducted on October 15, 2002. On Tuesday, February 18, 2020, a fire consumed the library beyond repair and the library has been closed since. The Board Meeting Agenda was lost in the fire. The library is not expected to re-open within the 6-month window recommended to resolve the deficiency. SJVLS will work with the library to ensure CIPA compliance when the new location opens.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.504(a) (2017).	<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.</i>
1, 3	47 C.F.R. § 54.516(a)(1) (2017).	<i>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</i>

Finding	Criteria	Description
		<i>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>
2	<p>FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2.</p> <p>FCC Form 474 Service Provider Invoice (SPI) Form at Block 3</p>	<p><i>I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by the Service Provider contain requests for universal service support for service 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.</i></p> <p><i>I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by the 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 issued a reimbursement decision.</i></p> <p><i>I certify that the invoices submitted by the Service Provider to the Billed Entity are for equipment and services eligible for universal service support by the Administrator and exclude any charges previously invoiced to the Administrator by the Service Provider.</i></p> <p><i>I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to submit this Service Provider Invoice Form (FCC Form 474) and acknowledge to the best of my knowledge, information and belief, as follows:</i></p> <p><i>I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitment.</i></p>
3	47 C.F.R. § 54.520(c)(2) (2017).	<i>Libraries. 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</i>

Finding	Criteria	Description
		<p>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> <p>(A) Access by minors to inappropriate matter on the Internet and World Wide Web;</p> <p>(B) The safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications;</p> <p>(C) Unauthorized access, including so-called “hacking,” and other unlawful activities by minors online;</p> <p>(D) Unauthorized disclosure, use, and dissemination of personal information regarding minors; and</p> <p>(E) Measures designed to restrict minors' access to materials harmful to minors.</p> <p>(iii) A library must satisfy its obligations to make certifications by making one of the following certifications required by paragraph (c)(2) of this section on FCC Form 486:</p> <p>(A) The recipient(s) of service represented in the Funding Request Number(s) on this Form 486 has (have) complied with the requirements of the Children’s Internet Protection Act, as codified at 47 U.S.C. 254(h) and (l).</p> <p>(B) Pursuant to the Children’s Internet Protection Act, as codified at 47 U.S.C. 254(h) and (l), the recipient(s) of</p>

Finding	Criteria	Description
		<p>service represented in the Funding Request Number(s) on this Form 486, for whom this is the first funding year in the federal universal service support mechanism for schools and libraries, is (are) undertaking such actions, including any necessary procurement procedures, to comply with the requirements of CIPA for the next funding year, but has (have) not completed all requirements of CIPA for this funding year.</p> <p>(C) The Children's Internet Protection Act, as codified at 47 U.S.C. 254(h) and (l), does not apply because the recipient(s) of service represented in the Funding Request Number(s) on this Form 486 is (are) receiving discount services only for telecommunications services.</p>
3	47 C.F.R. § 54.520(h) (2017).	Public notice; hearing or meeting. 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.

COTTON & COMPANY ASSURANCE AND ADVISORY LLC

M.P. Mesko

Megan Mesko, CPA, CFE
Partner
Alexandria, VA

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: August 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Hawaiian Telecom, Inc. Attachment B	3	<ul style="list-style-type: none"> <u>Inadequate Competitive Bidding Evaluation:</u> The Beneficiary did score the service providers fairly on price during the bid evaluations as the Service Provider that was selected did not submit the lowest cost bid but was awarded the most favorable score for the price category on the Beneficiary's bid evaluation matrix. 	\$314,459	\$197,113	\$197,113	\$197,113	Partial
Hillsborough County Schools Attachment C	2	<ul style="list-style-type: none"> <u>Beneficiary Failed to Timely File FCC Form 486:</u> The Beneficiary filed its FCC Form 486 for Funding Year 2019 more than 120 days from the start of service and the FCDL date. <u>Beneficiary At Risk for Over-Invoicing E-rate:</u> The Beneficiary's cost of services received was lower than the cost of services requested for 	\$1,100,386	\$2,633,018	\$25,294	\$2,140,866	Y

Available For Public Use

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
		31 of 35 locations and some equipment was not received.					
Queen Bee School District 16 Attachment D	1	<ul style="list-style-type: none"> No significant findings. 	\$149,396	\$0	\$0	\$0	Y
Lower Kuskokwim School District Attachment E	2	<ul style="list-style-type: none"> No significant findings. 	\$29,449,897	\$6,672	\$6,672	\$0	Partial
Total	8		\$31,014,138	\$2,836,803	\$229,079	\$2,337,979	

* 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. In one instance, the total Monetary Effect exceeded the Amount of Support disbursed to the Beneficiary as additional funding requests were tested.

**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.

Available For Public Use

Attachment B

SL2019SP008

Available For Public Use

Hawaiian Telcom, Inc.

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund E-rate Support Mechanism Rules

USAC Audit No. SL2019SP008

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EXECUTIVE SUMMARY

November 9, 2021

Keith Yoshino, Director of Regulatory Reporting
Hawaiian Telcom, Inc.
1177 Bishop Street
Honolulu, HI 96813

Dear Mr. Yoshino:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Hawaiian Telcom, Inc. (Service Provider), Service Provider Identification Number (SPIN) 143002709, for Funding Year 2018, 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 FCC Rules). Compliance with the FCC 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 FCC Rules based on the 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 type and amount of services provided by the Service Provider to E-Rate program applicants in the state of Hawaii (selected Beneficiaries), as well as performing other procedures AAD considered necessary to make a determination regarding the Service Provider's compliance with the FCC 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) and one other matter (Other Matter) 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 FCC Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary and USAC Management's attention.

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,



Jeanette Santana-Gonzalez
USAC Senior Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Craig Davis, USAC Vice President, E-Rate Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

Audit Results And Commitment Adjustment/Recovery Action

Audit Results	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.511(a) - Inadequate Competitive Bidding Evaluation Beneficiary did not score the service providers fairly on price during the bid evaluations as the Service Provider selected did not submit the lowest cost bid but was awarded the most favorable score for the price category on the Beneficiary's bid evaluation matrix.	\$187,519	\$187,519	\$187,519
Finding #2: FCC Form 474 at 4 - Service Provider Over Invoiced for Ineligible Services and Equipment. Service Provider over invoiced the E-Rate program for ineligible services and for services not requested on the FCC Form 471.	\$8,252	\$8,252	\$8,252
Finding #3: FCC Form 472 at 3- Beneficiary Over Invoiced for Amounts not Approved on the FCC Form 471. The Beneficiary invoiced USAC for amounts exceeding the per unit amounts requested on the Beneficiary's FCC Form 471.	\$1,342	\$1,342	\$1,342
Other Matter #1: Failure to comply with Competitive Bidding Requirements -The Beneficiary did not accept bids for services requested.	\$0	\$0	\$0
Total Net Monetary Effect	\$197,113	\$197,113	\$197,113

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 other invoices and FCC Forms 470 filed by the Beneficiaries and Service Provider during the audited Fund Years that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments.

USAC will request the Beneficiaries and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Beneficiaries and Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/video/sl/competitive-bidding-process/story.html>
- <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>
- <https://www.usac.org/e-rate/learn/webinars/> ("E-rate Invoicing Process") Please see 3:40 to 33:50 for invoicing requirements and 34:00 to 54:50 for related Q&A session.
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2020/12-16-2020-E-rate-Invoicing-Process-Webinar-Slides.pdf> (please see pages 10-57).
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2020/12-16-2020-E-rate-Invoicing-Process-Webinar-Key-Takeaways.pdf> (please see pages 1-3).

USAC records show the Beneficiaries and Service Provider are currently subscribed to Schools and Libraries weekly News Brief. USAC encourages the Beneficiaries and Service Provider to review the News Brief as it contains valuable information about the E-Rate program.

FRN	Recovery Amount	Commitment Adjustment Amount
2635617	\$28,414	\$28,414
2635625	\$6,933	\$6,933
2746455	\$33,193	\$33,193
2746462	\$6,987	\$6,987
1699040566	\$34,550	\$34,550
1799052232	\$40,017	\$40,017
1899063893	\$37,425	\$37,425
1899011823	\$8,252	\$8,252
1899009414	\$1,342	\$1,342
Total	\$197,113	\$197,113

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Service Provider for Funding Year 2018 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$305,520	\$0
Voice Services	\$8,939	\$0
Total	\$314,459	\$0¹

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

The committed total represents 14 FCC Form 471 applications with 21 Funding Request Numbers (FRNs). AAD selected seven FRNs of the 21 FRNs,² which represent \$244,138 of the funds committed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2018 applications submitted by the selected Beneficiaries.

BACKGROUND

The Service Provider provides internet access and voice services to customers in the state of Hawaii and its headquarters are located in Honolulu, Hawaii.

PROCEDURES

AAD performed the following procedures:

A. Eligibility Process

AAD obtained an understanding of the Service Provider's processes and internal controls governing its participation in the E-Rate program. Specifically, AAD conducted inquiries of the Service Provider and the selected Beneficiaries and examined documentation to determine whether controls exist to ensure services were eligible, delivered, and installed in accordance with the FCC Rules. AAD conducted inquiries and examined documentation to determine whether the Service Provider assisted with the completion of the selected Beneficiaries' FCC Form 470.

¹ There were no disbursements as of audit announcement. As of the date of this report, Internet Access and Voice Services disbursements were \$150,364 and \$3,896, respectively.

² The FRNs included in the scope of this audit: 1899011823, 1899075560, 1899075790, 1899063893, 1899008530, 1899009414 and 1899009418.

B. Competitive Bid Process

AAD obtained and examined documentation from the selected Beneficiaries 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 selected Beneficiaries 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, AAD conducted inquiries 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 services requested and purchased to determine whether the Service Provider provided the 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 services to non-residential customers similarly situated to the selected Beneficiaries.

C. Billing Process

AAD reviewed the Service Provider's contract with the selected Beneficiaries as well as the selected Beneficiaries' corresponding service provider bills to determine whether the services identified on the Beneficiaries' FCC Form 471 were consistent with the terms and specifications of the Service Provider's contracts and eligible in accordance with the E-Rate 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 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 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 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 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 AND OTHER MATTER

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

CONDITION

AAD obtained and examined documentation, including the service provider bids in response to the services requested by the Beneficiary in its FCC Form 470³ and the Beneficiary's bid evaluation matrices, to determine whether the Beneficiary conducted its competitive bidding process in compliance with the FCC Rules and selected the most cost effective offering using the price of the eligible goods and services as the primary factor for FRN 1899063893. The Beneficiary (Hawaii Baptist Academy) received and evaluated bid proposals submitted by Hawaiian Telcom, TW Telecom, and Envision. AAD determined through an examination of the Beneficiary's documentation and inquiries made that the Beneficiary did not demonstrate that it conducted an adequate competitive bidding evaluation and failed to select the most cost-effective service provider.

Based on a review of the Beneficiary's bid matrices, AAD determined that the Beneficiary's selection criteria included (1) price, (2) ease of implementation, (3) prior experience, (4) references, and (5) local presence. The Beneficiary scored the bids as follows:

Selection Criteria	Weight Assigned	Hawaiian Telcom	TW Telecom	Envision	Earthlink ⁴	Burling Point ⁵
Price	30%	4	3	3	0	0
Ease of Implementation	20%	5	3	2	0	0
Prior Experience	20%	4	3	0	0	0
References	15%	0	0	0	0	0
Local Presence	15%	5	5	5	0	0
Total		75%	57%	41%	0%	0%
Total Cost for 60 Months		\$421,320	\$280,053	\$420,000	N/A	N/A

Although price appears to be the primary factor – as the Beneficiary assigned the price criterion a weight of 30 percent, while the other factors were assigned a weight of 20 or 15 percent – Hawaiian Telcom's cost of \$421,320 for 60 months of service was the most expensive bid received, yet the bid received the highest score for the price criterion. The Beneficiary informed AAD that "[a]lthough TW Telecom's proposed fees were less, TW Telecom was unsure if they could provide the requested services" and "[t]hey were still unsure how the fiber would be run to our campus."⁶ Further, the Beneficiary noted that the quote included a \$2,200 non-recurring charge and the phrase "BUDGETARY QUOTE PENDING FINAL ENGINEERING AND FINANCE CHECK."⁷ Thus, the Beneficiary assumed that the cost of service for TW Telecom would be greater than what was

³ FCC Form 470 Application Number: 472550001137156, submitted Jul. 3, 2013.

⁴ The Beneficiary informed AAD that it initially received inquiries expressing interest from both Earthlink and Burling Point; however, neither Service Provider submitted an official bid. Therefore, the Beneficiary included the two service providers in its bid evaluation but scored both service providers with a score of zero.

⁵ *Id.*

⁶ *HT Justification* sent from David Uehara, Director of Technology at Hawaii Baptist Academy, via Box on 3/4/2020.

⁷ *Id.*

originally bid and TW Telecom did not receive the greatest score for price. While the Beneficiary may take other factors into consideration during its bid evaluation, the Beneficiary must use the price of eligible services as the primary factor.⁸ In this case, the Beneficiary considered uncertain additional costs instead of only using the price of the eligible services as the determining factor for this criterion. Further, the Beneficiary must evaluate the actual dollar amount proposed by a bidder.⁹

Because the Beneficiary considered uncertain additional costs while evaluating the price criterion instead of evaluating the actual price of the eligible services submitted in the bids, AAD concludes that the Beneficiary did not conduct its competitive bidding process in compliance with the FCC Rules.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules regarding the competitive bidding process and requirements to select the most cost-effective service offering using the price of the eligible goods and services as the primary factor.

EFFECT

The monetary effect of this finding is \$187,519. This amount represents the total funds committed by the E-Rate program for FRN 1899063893, as well as the total amount disbursed for FRNs 2635617, 2635625, 2746455, 274642, 1699040566, and 1799052232, which are all the FRNs associated with the Beneficiary's bid evaluation, as follows:

FRN	Disbursed Amount
2635617	\$28,414
2635625	\$6,933
2746455	\$33,193
2746462	\$6,987
1699040566	\$34,550
1799052232	\$40,017
1899063893	\$37,425
Total	\$187,519

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$187,519.

The Beneficiary must examine FCC Rules to familiarize itself with the FCC Rules requiring the performance of a fair and open competitive bidding process. The Beneficiary must implement policies, procedures and controls to ensure that it selects the most cost-effective service offering using the price of the eligible goods and services as the primary factor considered. The Beneficiary may visit USAC's website to learn more about the competitive bidding process at <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>.

⁸ 47 C.F.R. §54.511(a).

⁹ Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator, CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, FCC 03-313, paras. 50-52 (2003) (Ysleta Order).

SERVICE PROVIDER RESPONSE

This finding is related to actions taken by the Beneficiary. Service Provider (Hawaiian Telcom, Inc. or “HTI”) has no insights into or control over the process by which Beneficiary conducts its competitive bidding process. HTI is not responsible for any rule violations that may have been committed by the Beneficiary on these matters and USAC should clarify that it is only seeking recovery from the Beneficiary. *See Federal-State Joint Board on Universal Service, Changes to the Board of Directors for the National Exchange Carrier Association, Inc. Schools and Libraries Universal Service Support Mechanism*, CC Docket Nos. 96-45, 97-21, 02-6, Order on Reconsideration and Fourth Report and Order, 19 FCC Rcd 15808, 15255-15257, para. 10-15 (2004) (directing USAC to seek recovery against the party that violated the rule or statute).

Alternatively, HTI requests removal of this finding from this Service Provider Audit.

BENEFICIARY RESPONSE

HBA disagrees with the Auditor’s finding for the reasons set forth below.

HBA filed a new Form 470 for FY2014 with the purpose of upgrading its bandwidth, as clearly set forth on its quote. Hawaiian Telecom (HT) was the incumbent provider and HBA was under a multi-year contract. TW Telecom provided a quote that was not just for Internet and Transport. First, it commingled with other services. Second, the costs provided only a maximum of 150MB of Internet. Third, the costs were contingent on final engineering and finance check. Fourth, TW telecom indicated that it was uncertain whether they could even provide the services.

HBA evaluated the bids and found Hawaiian Telecom to be more responsive and met the needs of the school district as the district evaluated its options. TW Telecom was not able to provide 250MB of DIA, and through discussions was uncertain as to whether it could even engineer the requirements to meet the needs of the school. HBA awarded TW Telecom a lower score, because of its uncertain service offering, which was lower and subject to increased costs pending engineering as stated clearly on its quote, which could have been substantial. TW Telecom was not even certain that they would be able to engineer a fiber solution, so they threw out numbers in a quote that was riddled with uncertainties. In addition, HBA was under a contract with HT. That contract provides for early termination fees that, while not E-rate eligible, would have resulted in significant increase to any other bid.

HBA did not receive quotes that were equal in weighting. It would not be proper to award TW telecom the highest points, just because it provided a bid with a lower cost that was not equivalent to the upgrade costs provided by Hawaiian Telecom. USAC does not provide guidance under such circumstances for upgrades during a multi-year contract, and HBA evaluated the bids based upon the information that it had available at the time and based on the needs that it sought. It was TW Telecom that placed the actual cost of its quote in jeopardy by placing so many contingencies on it and not being able to provide for increased bandwidth or a fiber solution. In any event, even if HBA had scored HT one point lower, the outcome of the bid would have been the same, because HT received the highest score.

This audit is over two-years old and personnel changes have taken place at the school and access to all of the documents are not accessible that were exchanged during the audit in USAC’s KITE and

Box. HBA respectfully requests access to all working papers used during the audit and reserves the right to augment its response upon access to those documents.

AAD RESPONSE

The Service Provider stated in its response that it “ requests *[sic]* removal of this finding from this Service Provider Audit.” While the audit is focused on the Service Provider’s compliance with the FCC Rules, AAD performs procedures that determine whether there is evidence of non-compliance with the FCC Rules regarding the funds disbursed based on the Beneficiaries’ applications. In the event that non-compliance has been noted as a finding, AAD appropriately states whether the Beneficiary and/or Service Provider, should take action in the Recommendation section of the finding.

The Beneficiary stated in its response that it disagreed with the auditor’s findings for a number of different reasons. On its FCC Form 470, the Beneficiary requested high-speed internet access at a rate of 75 mbps or higher. The Beneficiary received bids from three service providers that met this minimum requirement, Hawaiian Telcom (HT), TW Telecom (TW), and Envision. In accordance with the FCC Rules, the Beneficiary is required to conduct an evaluation of the bids using the cost of eligible services as the primary factor. When AAD performed a recalculation for the cost of eligible services, AAD found that both TW and Envision’s bids had a cost of eligible services lower than HT’s bid. However, the Beneficiary gave HT the most favorable score in the pricing category.

The Beneficiary contests the finding on the basis that 1) the costs of the TW bid included commingled services, 2) TW’s bid only had a maximum speed of 150MB, and 3) the bid had contingent costs. In addition, the Beneficiary claims TW was uncertain if they would be able to provide service. While the Beneficiary’s response focuses on its issues with TW’s bid, the finding demonstrates that the Envision bid was also lower than HT’s bid, but was not scored higher than the HT bid in the pricing category. Both the TW and Envision lower bid scores for pricing, as compared to HT’s bid score, is indicative of an improper bid evaluation.

Service providers are allowed to submit bids for services that provide more than one service and may submit bids for services that contain both eligible and ineligible functions. The bid submitted by TW met and exceeded the minimum speed requirement the Beneficiary requested on the Form 470. When performing a bid evaluation, the Beneficiary may take other factors into consideration during its bid evaluation in other categories; however, the Beneficiary must evaluate the actual dollar amount proposed by a bidder for the pricing category.¹⁰ Further, the Beneficiary must use the price of eligible services as the primary factor. Early termination fees are not an eligible service, and thus should not have been included in the Beneficiary’s evaluation of pricing

Moreover, the Beneficiary states the outcome of the bid evaluation would have been the same if HT received a lower score for the price category. AAD acknowledges the Beneficiary scored HT the highest in all other evaluation categories. However, this does not absolve the Beneficiary from the fact that the bid evaluation matrix did not demonstrate that it selected the most cost-effective bid utilizing price as the primary factor.

AAD provided the Beneficiary an initial exception summary in June of 2020. When the final version of the audit finding was presented, the Beneficiary notified AAD that it experienced some key personnel changes. In response to the personnel turnover, AAD provided the Beneficiary with all the documentation provided by the

¹⁰ *Id.*

Beneficiary, as well as an updated version of the finding summary, which included the underlying support for the basis of this finding to facilitate the Beneficiary's response to this finding.

For these reasons, AAD's position on this Finding remains unchanged.

Finding #2: FCC Form 474, at 4 - Service Provider Over-Invoiced E-Rate Program for Services Not Requested by the Beneficiary on its FCC Form 471

CONDITION

AAD obtained and examined the FCC Form 471, FCC Form 474 Service Provider Invoice (SPI) forms, and the Beneficiary's supporting documentation for requests made on the FCC Form 471, and the service provider bills to the Beneficiary (Assets School) provided by the Service Provider to determine whether the E-Rate program was invoiced only for eligible and approved services for FRN 1899011823. On its FCC Form 471, the Beneficiary requested and was approved for Internet Access service from its Service Provider Hawaiian Telcom, Inc. However, AAD determined that the Beneficiary received E-Rate program support for services not requested on its FCC Form 471 as summarized below.

The Beneficiary provided additional details regarding their request in a narrative on its FCC Form 471 stating that services requested were Ethernet for two locations at 250 Mbps and 100 Mbps for one location with 5 static IP addresses. However, the Service Provider's bills demonstrated that the service provider charged the Beneficiary for VLAN services as well as provided an E-Rate credit for the VLAN service. As this service was not requested on the Beneficiary's FCC Form 471, it is ineligible to be invoiced to the E-Rate Program. In addition, although VLAN service is an eligible service, VLAN is only eligible for internal connections.¹¹

Further, during AAD's review of the supporting documentation for requests made on the FCC Form 471, AAD noted that the committed amount on the FCC Form 471 was the combination of two different accounts, accounts ending in 7253 and 7254. These accounts both received Ethernet service totaling \$11,965 per month for a total of \$143,580 per year, which equaled the pre-discounted cost for the funding year listed on the FCC Form 471. However, AAD noted that the Service Provider invoiced an additional account ending in 5056 for Elite Internet, 13 additional static IP addresses and additional upload speed. As these items were not requested on the Beneficiary's FCC Form 471, they are ineligible to be invoiced to the E-Rate Program.

Because the Beneficiary received services from the Service Provider that were not requested in its FCC Form 471 and was improperly provided an E-Rate credit for the ineligible service received, AAD concludes that the E-Rate program was over-invoiced.¹² The total discounted amount of the approved, eligible services that were supported by the service provider bills totaled \$19,820 (total eligible services of \$49,549 * the Beneficiary's 40 percent discount rate). The difference between the total discounted amount invoiced to the E-Rate program by the service provider and the total approved, eligible discounted amount supported by the service provider bills is \$8,252. As such, the service provider over-invoiced the E-Rate program by \$8,252 (\$28,072¹³ - \$19,820).

¹¹ See 2018 Eligible Services List. https://apps.fcc.gov/edocs_public/attachmatch/DA-17-973A1.pdf

¹² 47 C.F.R. §§ 54.504(a) and (e); see also 47 C.F.R. § 54.507(d)(1) and Service Provider Invoice Form (SPI), FCC Form 474 Instructions at 4 (July 2013).

¹³ Approved amount associated with FRN 1899011823 for FCC Form 474 No.3010871.

CAUSE

The Service Provider did not have adequate processes in place to ensure that it only invoiced the E-Rate Program for approved services and that it billed services properly.

EFFECT

The monetary effect of this finding is \$8,252. This amount represents the difference between the disbursed amount for FRN 1899011823 of \$28,072 and the total discounted cost of eligible services received of \$19,820.

RECOMMENDATION

AAD recommends that USAC management seek recovery of \$8,252 for FRN 1899011823.

The Service Provider must implement policies, procedures and controls to ensure that the E-Rate program is only invoiced for eligible, approved services as requested by the beneficiaries on the FCC Form 471 and that ineligible services are properly allocated and removed from the invoice prior to submission of the SPI Forms, as required by the FCC Rules. In addition, the Service Provider may review the FCC Form 474 (SPI) guidance provided by USAC E-Rate program at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/fcc-form-474-filing/>.

SERVICE PROVIDER RESPONSE

HTI inadvertently applied the FY2018 approved Erate [*sic*] discount to 10-MB internet service acquired by the Beneficiary. The 10-MB service was not included on the FY2018 approved FCC Form 471.

HTI will implement a more robust FCC Form 471 validation process as part of its FCC Form 474 development procedure.

HTI did not provide the Beneficiary with VLAN services; HTI provided the EIPDS QoS service, which the Beneficiary requested on its original FCC Form 470. The EIPDS QoS service appears on the invoice as "VLAN ID2 QoS."

AAD RESPONSE

The Service Provider stated in its response that it "did not provide the Beneficiary with VLAN services" and that "HTI provided the EIPDS QoS service, which the Beneficiary requested on its original FCC Form 470. The EIPDS QoS service appears on the invoice as 'VLAN ID2 QoS.'" During the course of the audit, no documentation was provided by the Service Provider to support that the services received were EIPDS QoS rather than the VLAN services listed in the Service Provider bills. 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.¹⁴ Without sufficient, appropriate evidence supporting the Beneficiary's assertion as noted in its response, AAD's conclusion based on the audit evidence (i.e., Service Provider bills that support that VLAN services were delivered), the finding remains unchanged.

¹⁴ See U.S. Government Accountability Office, Government Auditing Standards, GAO-18-568G, para. 8.90 (Rev. Jul. 2018) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions.")

Finding #3: Billed Entity Applicant Reimbursement Form, FCC Form 472, at Block 3-Beneficiary Over-Invoiced the E-Rate Program for Amounts Greater Than Requested on the FCC Form 471

CONDITION

AAD obtained and examined the Beneficiary's FCC Form 471, the FCC Form 472 Billed Entity Applicant Reimbursement (BEAR) forms, and the corresponding service provider bills provided by the Service Provider to determine whether the Beneficiary invoiced the E-Rate program only for eligible telecommunications services for FRN 18990009414. On the Beneficiary's FCC Form 471, it requested 80 lines of local/long distance voice service at a rate of \$35 per line, for a total eligible recurring cost of \$33,600. The Beneficiary invoiced the E-Rate program for \$27,699, which was the entire amount listed on the service provider bills. AAD reviewed the service provider bills supporting the FCC Form 472 and identified an average of 30 lines per month receiving services costing in excess of \$35 per month, with charges ranging from \$40 to more than \$500 a month. The difference between the discounted costs disbursed by the E-Rate program to the Beneficiary and the amount of eligible discounted costs supported by the service provider bills was \$1,342 (\$13,419* the Beneficiary's 10 percent discount rate). Thus, the Beneficiary over-invoiced the E-Rate program by \$1,342, which was disbursed by the E-Rate Program.

Because the Beneficiary was only approved for voice services at a rate of \$35 per line per month, AAD concludes that the Beneficiary over invoiced the E-Rate program for amounts exceeding \$35 a month per line.¹⁵

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules requiring the submission of invoices to the E-Rate program for approved, eligible services. In addition, the Beneficiary did not have adequate controls and procedures in place to ensure that the E-Rate program is invoiced only for the discounted costs of approved, eligible services received from and invoiced by the service provider.

EFFECT

The monetary effect of this finding is \$1,342. This amount represents the discounted portion of services invoiced to the E-Rate program that are in excess of the \$35 per line per month approved on the Beneficiary's FCC Form 471 for FRN 18990009414.

RECOMMENDATION

AAD recommends that USAC seek recovery of \$1,342.

The Beneficiary must familiarize itself with the FCC Rules requiring the submission of invoices to the E-Rate program for approved, eligible services. The Beneficiary should implement policies, procedures and controls to ensure that the E-Rate program is invoiced only for the Beneficiary's discounted portion of eligible quantities and amounts of service that are requested and approved on the FCC Form 471, as required by the FCC Rules. The Beneficiary's procedures should include a subsequent review by someone independent of the BEAR preparation process to determine whether the BEAR is reconciled to the service provider bills and accurate prior to submission to the E-Rate Program. In addition, the Beneficiary may review the FCC Form 472

¹⁵ 47 C.F.R. § 54.504(a); see also 47 C.F.R. § 54.507(d)(1) and Billed Entity Applicant Reimbursement Form (BEAR), FCC Form 472 at Block 3 (July 2013).

(BEAR) guidance provided by the E-Rate program at <https://www.usac.org/e-rate/applicant-process/invoicing/fcc-form-472-filing/>.

SERVICE PROVIDER RESPONSE

This finding is related to actions taken by the Beneficiary. HTI has no insights into or control over the process by which the Beneficiary prepares and submits its BEAR form. HTI is not responsible for any rule violations that may have been committed by the Beneficiary on these matters and USAC should clarify that it is only seeking recovery from the Beneficiary. See *Federal-State Joint Board on Universal Service, Changes to the Board of Directors for the National Exchange Carrier Association, Inc. Schools and Libraries Universal Service Support Mechanism*, CC Docket Nos. 96-45, 97-21, 02-6, Order on Reconsideration and Fourth Report and Order, 19 FCC Rcd 15808, 15255-15257, para. 10-15 (2004) (directing USAC to seek recovery against the party that violated the rule or statute).

Alternatively, HTI requests removal of this finding from this Service Provider Audit.

BENEFICIARY RESPONSE

The applicant takes exception to this finding as it is unmerited. There is nothing in the statement at Block 3 that indicates that a rule has been violated. All charges were made by the service provider and the FCC Form 472 automatically calculates the discount so only the discounted portion was reimbursed.

It has been a factor from the program's inception that some monthly bills will exceed the calculated monthly amount on the FCC Form 471. Some monthly bills will not reach those amounts. It is the total amount of the annual approved funds that factor into this and the tools automatically calculate that limit.

This finding is not a valid finding as historical invoice trainings have demonstrated and specifically noted that some months may exceed the FCC Form 471 monthly amount but the annual amount is what cannot be exceeded.

AAD RESPONSE

The Service Provider stated in its response that it "requests *[sic]* removal of this finding from this Service Provider Audit." While the audit is focused on the Service Provider's compliance with the FCC Rules, AAD performs procedures that determine whether there is evidence of non-compliance with the FCC Rules regarding the funds disbursed based on the beneficiaries' applications. In the event that non-compliance has been noted as a finding, AAD appropriately states whether the Beneficiary and/or Service Provider, should take action in the Recommendation section of the finding.

The Beneficiary stated in its response that it "takes exception to this finding as it is unmerited" and "there is nothing in the statement at Block 3 that indicates that a rule has been violated." Block 3 of FCC Form 472 lists multiple certifications the Beneficiary must declare before submitting the FCC Form 472. One of these certifications is that "[t]he discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form are for eligible services approved by the fund administrator pursuant to a Funding Commitment Decision Letter."¹⁶ On its FCC Form 471, the Beneficiary's services requested and approved were at a rate of \$35 per line. However, the Beneficiary included costs in excess of the \$35 per line within its FCC

¹⁶ Billed Entity Applicant Reimbursement Form, FCC Form 472, at Block 3.

Form 472 as described in the condition above. As the costs in excess of \$35 per line were not approved in its FCC Form 471, the Beneficiary violated its Block 3 certification.

For these reasons, AAD's position on this Finding remains unchanged.

Other Matter #1: 47 C.F.R. § 54.503(a) - Inadequate Competitive Bidding Process - Beneficiary did not Intend to Consider Bids**CONDITION**

AAD obtained and examined the FCC Form 470 *Schools and Libraries Universal Service Description of Services Requested and Certification Form* to determine whether the Beneficiary conducted a fair and open competitive bidding process for FRN 1899063893. On the Beneficiary's FCC Form 470¹⁷, it requested Internet access services including Leased Lit Fiber with a capacity's between 50 and 100 Mbps, 100 and 500 Mbps, and between 200 Mbps and 1 Gbps. In addition, the Beneficiary requested Internet access and transport bundled with capacities between 50 and 100 Mbps, 100 and 500 Mbps, and between 200 Mbps and 1 Gbps on its FCC Form 470.

Subsequent to submitting the FCC Form 470, the Beneficiary discovered it could extend its existing contract, which was due to expire during the middle of the funding year, on a month-to-month basis. Upon discovery of this fact, the Beneficiary ceased to pursue bids for the FCC Form 470. AAD inquired of the Beneficiary and determined that the Beneficiary did receive a bid for the services requested on its FCC Form 470. However, the bid was received after the Beneficiary had waited 28 days and elected to go month-to-month on its existing contract by submitting its FCC Form 471.

Because the Beneficiary did not receive a bid until after waiting 28 days to select services, the Beneficiary was permitted to continue receiving the E-Rate program support for the services received in the pre-existing contracts. However, if the Beneficiary had received bids prior to the submission of the FCC Form 471, by not intending to consider bids received, AAD concludes that the Beneficiary was at risk of not performing a fair and open competitive bidding process as required by the FCC Rules.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules requiring the competitive bidding process. The Beneficiary did not understand that contracts ending in the middle of the funding year may be extended on a month-to-month basis without the submission of a new FCC Form 470.¹⁸

EFFECT

There is no monetary effect associated with this other matter as the Beneficiary did not receive bids prior to submitting its FCC Form 471 for FRN 1899063893 and was permitted to seek E-Rate program support for services received on its pre-existing multi-year contracts.

RECOMMENDATION

¹⁷ FCC Form 470 Application Number: 180026253, submitted Feb. 14, 2018.

¹⁸ Beneficiary response to the initial audit data request titled *HBA Internet Request 2018* sent from David Uehera, Director of Technology at Hawaii Baptist Academy, via Kiteworks on 6/20/2019.

AAD recommends that the Beneficiary familiarize itself with the FCC Rules requiring the performance of a fair and open competitive bidding process. In addition, the Beneficiary may visit USAC's website at www.usac.org/sl/about/outreach/default.aspx to become familiar with the training and outreach available from the E-Rate program.

SERVICE PROVIDER RESPONSE

This matter is related to actions taken by the Beneficiary. HTI has no insights into or control over the process by which the Beneficiary conducts its competitive bidding process. HTI is not responsible for the Beneficiary's lack of knowledge of the FCC rules and any potential rule violations that may have been committed by the Beneficiary on these matters.

BENEFICIARY RESPONSE

HBA disagrees with the auditor's finding. HBA sought to upgrade its services that were being provided under a multi-year contract. USAC does not provide for a simple approach to seek upgraded services under such circumstances; rather it requires to a new Form 470 to be posted. In any event, once HBA realized that it was still under contract, we believe that we took responsible and prudent action in not moving forward with the Form 470. It is our understanding that under such circumstances, the applicant is able to cancel a Form 470. In any event, we always endeavor to follow the FCC rules on competitive bidding as well as all other rules and would request that the FCC and USAC issue clearer guidance to applicants on these types of findings.

AAD RESPONSE

The Beneficiary stated in its response that it "disagrees with the auditor's finding" and that "the applicant is able to cancel a Form 470." AAD reviewed the Beneficiary's competitive bidding process and found no evidence the Beneficiary formally cancelled the FCC Form 470 Application number 180026253. AAD recommends the Beneficiary visit USAC's website at www.usac.org/sl/about/outreach/default.aspx to become familiar with the training and outreach available from the E-Rate program. For this reason, AAD's position on this Other Matter remains unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.511(a) (2017)	Except as exempted in § 54.503(e), in selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.
#1	<i>Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator</i> , CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, FCC 03-313, paras. 50-52 (2003) (<i>Ysleta Order</i>).	<p>[P]rice must be the primary factor in considering bids. Applicants may also take other factors into consideration, but in selecting the winning bid, price must be given more weight than any other single factor...</p> <p>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.</p>
#2	<i>Schools and Libraries (E-rate) Program FCC Form 474 (SPI)</i> at Block 3 (July 2013).	<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>
#2, #3	47 C.F.R. § 54.504(a) (2017)	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. § 54.504(e) (2017)	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.
#2, #3	47 C.F.R. § 54.507(d) (2017)	Schools and libraries, and consortia of such eligible 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 discounts were sought.

#2	<p><i>Modernizing the E-rate Program for Schools and Libraries, WC Docket No. 13-184, Order, 32 FCC Rcd 7414, App. B (FY2018 Eligible Services List); See also 47 C.F.R. § 54.502 (2017)</i></p>	<p><u>Category Two</u> Eligible Broadband Internal Connections</p> <ul style="list-style-type: none"> • Access points used in a local area network (LAN) or wireless local area network (WLAN) environment (such as wireless access points) • Antennas, cabling, connectors, and related components used for internal broadband connections • Caching • Firewall services and components separate from basic firewall protection provided as a standard component of a vendor's Internet access service. • Switches • Routers • Racks • Uninterruptible Power Supply (UPS)/Battery Backup • Wireless controller systems • Software supporting the components on this list used to distribute high-speed broadband throughout school buildings and libraries
#3	<p><i>Billed Entity Applicant Reimbursement Form, FCC Form 472, at Block 3 (2013)</i></p>	<p>I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to submit this Billed Entity Applicant Reimbursement Form on behalf of the eligible schools, libraries, or consortia of those entities represented on this Form, and I certify to the best of my knowledge, information and belief, as follows:</p> <p>A. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form represent charges for eligible services delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.</p> <p>B. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form were already billed by the service provider and paid by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities.</p> <p>C. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form are for eligible services approved by the fund administrator pursuant to a Funding Commitment Decision Letter.</p> <p>D. I recognize that I may be audited pursuant to this application and will retain for at least five years (or whatever retention period is required by the rules in effect at the time of this certification), after the last day of service delivered in this funding year any and all records that I rely upon to fill in this form.</p> <p>E. I certify that, in addition to the foregoing, this Billed Entity Applicant is in compliance with the rules and orders governing the schools and libraries universal service support program, and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments. I acknowledge that failure to comply with the rules and orders governing the schools and libraries universal service support</p>

		program could result in civil or criminal prosecution by law enforcement authorities.
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Other Matter	Criteria	Description
#1	47 C.F.R. § 54.503(a) (2017)	(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.

This concludes the report.

Attachment C

SL2021LR003

Available For Public Use



Hillsborough County Schools

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund E-rate Support Mechanism Rules

USAC Audit No. SL2021LR003

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EXECUTIVE SUMMARY

November 15, 2021

Addison G. Davis, Superintendent
Hillsborough County Public Schools
901 East Kennedy Boulevard
Tampa, FL 33602

Dear Mr. Davis:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Hillsborough County Public Schools (Beneficiary), Billed Entity Number (BEN) 12779 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 FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC 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 (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 FCC 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) and one other matter (Other Matter) 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 FCC Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary's and USAC Management's attention.

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 blue ink that reads "Jeanette Santana-Gonzalez". The signature is written in a cursive, flowing style.

Jeanette Santana-Gonzalez
USAC Senior Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Craig Davis, USAC Vice President, E-Rate Division
Teleshia Delmar, USAC Vice President, Audit and Assurance 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 FCC Form 486 Instructions - Beneficiary Failed to Timely File FCC Form 486 The Beneficiary filed its FCC Form 486 for Funding Year 2019 on 1/15/21, which was more than 120 days from the start of service (2/20/2020) and the FCDL date (3/12/2020).	\$1,856,290	\$0	\$0	\$1,856,290
Finding #2 FCC Form 472 Instructions at Block 3 - Beneficiary Over-Invoiced E-Rate Program for Ineligible Costs and Amounts Greater than Requested on the FCC Form 471 The Beneficiary included on its BEAR Form, both ineligible locations and amounts in excess of what was requested on the Beneficiary's FCC Form 471.	\$25,294	\$0	\$25,294	\$25,294
Other Matter #1 - FCC Form 472 Instructions at 3 - Beneficiary at Risk of Over-Invoicing for Services and Equipment Not Received. Beneficiary's cost of services received was lower than the cost of services requested for 31 of 35 locations. This was due to less equipment being received and some equipment costing less than the requested amount. The Beneficiary has yet to invoice for these services.	\$751,434	\$492,151	\$0	\$259,282
Total Net Monetary Effect	\$2,633,018	\$492,151	\$25,294	\$2,140,866

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. USAC will review other invoices filed by the Beneficiary during the audited Fund Years that were not in the scope of this audit and 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/learn/webinars/> ("E-rate Post-Commitment Process") Please see 12:00 to 19:27 for FCC Form 486 filing requirements and 25:31 to 30:02 for FCC Form 500 filing requirements.
- https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2021/fall_training/6.-Post_Commitment-FINAL.pdf (please see pages 21-28 for FCC Form 486 filing requirements and 39-41 for FCC Form 500 filing requirements).
- <https://www.usac.org/e-rate/learn/webinars/> ("E-rate Invoicing Process") Please see 3:40 to 33:50 for invoicing requirements and 34:00 to 54:50 for related Q&A session.
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2020/12-16-2020-E-rate-Invoicing-Process-Webinar-Slides.pdf> (please see pages 10-57).
- https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2020/12-16-2020-E-rate-Invoicing-Process-Webinar_Key-Takeaways.pdf (please see pages 1-3).

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
1999066301	\$0	\$2,115,572
1999061983	\$25,294	\$25,294
Total	\$25,294	\$2,140,866



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 E-Rate program support amounts committed and disbursed to the Beneficiary for Funding Year 2019 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$1,648,296	\$1,100,386
Internet Access	\$2,519,500	\$0
Total	\$4,167,796	\$1,100,386

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 FRNs,² which represent \$3,640,120 of the funds committed and \$933,300 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2019 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a School District located in Tampa, Florida that serves over 220,000 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the E-Rate program. 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 FCC Rules. AAD conducted inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which funding was requested. AAD also conducted inquiries 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 E-Rate program Children's Internet Protection Act (CIPA) requirements. Specifically, AAD obtained the Beneficiary's FCC Form 486 to determine if the Beneficiary had certified it was in compliance with CIPA, or if they had requested a waiver of their requirement to comply with CIPA.

² The FRNs included in the scope of this audit were: 1999061983 and 1999066301.

**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.

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 virtual site visit 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 FCC 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 forms for equipment and services provided to the Beneficiary. AAD verified that the equipment and services identified on the BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-Rate Eligible Services List.

DETAILED AUDIT FINDINGS AND OTHER MATTER

Finding #1: FCC Form 486 Instructions - Beneficiary Did Not Timely File FCC Form 486

CONDITION

AAD obtained and examined documentation including the Beneficiary's (Hillsborough) FCC Form 486 (Receipt of Service Confirmation and Children's Internet Protection Act and Technology Plan Certification Form) as well as the Funding Commitment Decision Letter (FCDL), and documentation to support the installation of services at the Beneficiary's locations, to determine whether the Beneficiary filed the FCC Form 486 for the internal connections services received for FRN 1999066301 in accordance with the FCC Rules. For the Beneficiary to receive discounted services retroactive to the start date of the service, the Beneficiary must file the FCC Form 486 no later than 120 days after the start of service, or no later than 120 days after the date of the Beneficiary's FCDL, whichever is later.³ However, the Beneficiary did not file its FCC Form 486 by the deadline established by the FCC Rules; as a result, 24 schools were not eligible for support.

AAD reviewed the Beneficiary's FCDL and determined that USAC issued the Beneficiary's FCDL on March 12, 2020. In addition, AAD reviewed the Beneficiary's supporting documentation for the start of service at each location, which is summarized in the below table:

No.	School	Install Date	Amount Committed
1	THOMPSON ELEMENTARY SCHOOL	2/20/2020	\$62,192
2	SPOTO HIGH SCHOOL	2/26/2020	\$108,825
3	ROBLES ELEMENTARY SCHOOL	4/15/2020	\$56,911
4	REDDICK ELEMENTARY SCHOOL	4/16/2020	\$52,655
5	LETO HIGH SCHOOL	4/22/2020	\$148,656
6	PROGRESS VILLAGE MIDDLE SCHOOL	4/27/2020	\$87,565
7	RIVERVIEW HIGH SCHOOL	5/22/2020	\$140,504
8	DR. CARTER G WOODSON K-8	6/1/2020	\$117,280
9	YOUNG MAGNET SCHOOL	6/1/2020	\$80,969
10	GAITHER HIGH SCHOOL	6/2/2020	\$146,871
11	ROLAND PARK K8	6/6/2020	\$67,574
12	WILLIAMS MIDDLE SCHOOL	6/22/2020	\$77,641
13	CRESTWOOD ELEMENTARY SCHOOL	7/6/2020	\$66,546
14	LAKE MAGDALENE ELEMENTARY	7/7/2020	\$76,379
15	LOWRY ELEMENTARY SCHOOL	7/8/2020	\$81,041
16	RAMPELLO DOWNTOWN PARTNERSHIP K8	7/8/2020	\$56,419
17	TURKEY CREEK MIDDLE SCHOOL	7/14/2020	\$79,220
18	PLANT CITY HIGH SCHOOL	7/28/2020	\$145,869
19	SULLIVAN PARTNERSHIP SCHOOL	7/28/2020	\$7,451
20	LAMB ELEMENTARY SCHOOL (GRADES K-5)	8/3/2020	\$58,977
21	SOUTH COUNTY CAREER HIGH SCHOOL	8/5/2020	\$23,943
22	CYPRESS CREEK ELEM SCHOOL	8/10/2020	\$73,482

³ See *Instructions for Completing the School and Libraries Service (E-Rate program) Receipt of Service Confirmation and Children's Internet Protection Act and Technology Plan Certification Form*. FCC Form 486 Instructions (III.)(B.)(December 2013); see also *Federal-State Joint Board on Universal Service, Children's Internet Protection Act*, CC Docket No. 96-45, Order, 17 FCC Rcd 12443, 12445, para. 5 (2002) (*CIPA II Order*).



23	BOWERS-WHITLEY CAREER CENTER	9/9/2020	\$16,864
24	SIMMONS CAREER CENTER	9/16/2020	\$22,456
25	ORANGE GROVE MIDDLE	10/5/2020	\$47,772
26	TWIN LAKES ELEMENTARY SCHOOL	10/6/2020	\$51,838
27	EGYPT LAKE ELEMENTARY SCHOOL	10/16/2020	\$47,110
28	WEBB MIDDLE SCHOOL	10/19/2020	\$71,607
29	WILSON ELEMENTARY SCHOOL	10/19/2020	\$33,530
30	WATERS CAREER CENTER	10/27/2020	\$12,829
31	CHIARAMONTE ELEMENTARY SCHOOL	10/29/2020	\$52,029
32	WALDEN LAKE ELEMENTARY SCHOOL	11/2/2020	\$79,035
33	SEFFNER ELEMENTARY SCHOOL	11/3/2020	\$62,066
34	ADAMS MIDDLE SCHOOL	11/9/2020	\$73,680
35	TAMPA BAY TECH HIGH SCHOOL	12/7/2020	\$131,763
Total			\$2,519,549

Because the FCDL was issued after the start of service (Feb. 20, 2020), the deadline for filing the Beneficiary's FCC Form 486 was 120 days from FCDL issuance (Jul. 10, 2020). However, because of the COVID-19 pandemic, the Beneficiary was provided an additional 120 days and should have submitted its FCC Form 486 by November 9, 2020 (i.e., July 10, 2020 plus 120 days).⁴ As of the commencement of the audit on November 18, 2020, the Beneficiary had not filed the FCC Form 486, due to an oversight contributed to by a number of factors including limited resources during the COVID-19 pandemic.⁵ After AAD inquired with the Beneficiary regarding the status of the FCC Form 486, the Beneficiary filed the FCC Form 486 on January 15, 2021.

As the Beneficiary filed the FCC Form 486 on January 15, 2021, the earliest eligible service start date to receive funding for discounted services was September 17, 2020 (i.e., January 15, 2021 less 120 days).⁶ As a result, AAD determined that the Beneficiary is eligible to receive funding for 11 of the 35 schools with installation dates (service start date) after September 17, 2020.

Because the Beneficiary did not file the FCC Form 486 for the internal connections services received for FRN 1999066301 in accordance with the FCC Rules, AAD concludes that 24 of the 35 schools requested for service on the FCC Form 471 are not eligible for discounted services totaling \$1,856,290.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules governing the submission of the FCC Form 486. The Beneficiary informed AAD that the Beneficiary had assumed the FCC Form 486 filed in a previous Funding Year for the same contract was applicable for the current Funding Year.⁷

⁴ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, 35 FCC Rcd 2978, 2980, 2982, paras. 6 and 9 (WCB 2020) (extending the service delivery deadline for non-recurring services for Funding Year 2019 to September 30, 2021 and providing an additional 120 days to submit the FCC Form 486 during the COVID-19 pandemic).

⁵ Beneficiary responses to audit inquiries (received Feb. 10, 2021).

⁶ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, 35 FCC Rcd 2978, 2980, 2982, paras. 6 and 9 (WCB 2020) (extending the service delivery deadline for non-recurring services for Funding Year 2019 to September 30, 2021 and providing an additional 120 days to submit the FCC Form 486 during the COVID-19 pandemic).

⁷ See Beneficiary's response to audit inquiries (received Feb. 10, 2021).



EFFECT

The monetary effect for this finding is \$1,856,290. This amount represents the funds committed by the E-Rate program for the Beneficiary's discounted portion of the services that were installed prior to the Beneficiary's adjusted service start date of September 17, 2020.

RECOMMENDATION

AAD recommends that USAC Management reduce the committed amount by \$1,856,290.

The Beneficiary must implement controls and procedures to ensure the FCC Form 486 is properly certified and submitted within 120 days of the later of the Beneficiary's service start date or the FCDL date, as required by the FCC Rules. In addition, the Beneficiary may review the FCC Form 486 filing guidance provided by USAC E-Rate program at <https://www.usac.org/e-rate/applicant-process/starting-services/fcc-form-486-filing/>.

BENEFICIARY RESPONSE

The district acknowledges a Form 486 was not submitted until 1/15/2021 after receipt of AAD inquiries. The table below reflects the service start dates where the district and vendor verified the punch list completion, and the district accepted the turn-key system from the vendor for each of the remaining 35 schools.

A combination of factors contributed to the oversight. A Form 486 was submitted for the original 1-year contract for 200+ schools and was correctly filed and covered the contract. This was a single-year project that was severely delayed in the approval process and during implementation. USAC automatically extended the original FRN due to a hurricane and the late USAC approval. Our district submitted an extension due to hardware issues outside the vendor's control that would have completed all schools. The contract end date extension was updated but the service end date was not, nor clearly denied. USAC noted we could not extend an FRN until the existing extension expired, which was after the service end date and unable to extend. We did not find out our contract extension was not processed until USAC rejected an invoice after the service end date. Since we were not clearly informed our contract was not extended, the 60-day opportunity to appeal had passed. The district filed an appeal on a denial of a request to extend past the extension request deadline for the remaining schools. These 35 remaining sites were pending appeal and submitted under this new FRN. The appeal was eventually rejected and this new FRN was approved. The Project Manager was operating under the premise this was the same contract that was approved and continued for the past two years under the original Form 486. In review, Covid-19 forced staff to work remotely and added to the delay in the second Form 486 submission. However, the contract and project were continuations but with two FRNs covering these same 35 schools and a second Form 486 was required.

No	School	Install Date ²	Turn-key Completion Date	Amount Committed ⁸
1	THOMPSON ELEMENTARY SCHOOL	2/20/2020	3/11/2020	\$62,192
2	SPOTO HIGH SCHOOL	2/26/2020	1/11/2021	\$108,825
3	ROBLES ELEMENTARY SCHOOL	4/15/2020	4/27/2020	\$56,911
4	REDDICK ELEMENTARY SCHOOL	4/16/2020	12/2/2020	\$52,655
5	LETO HIGH SCHOOL	4/22/2020	10/26/2020	\$148,656
6	PROGRESS VILLAGE MIDDLE SCHOOL	4/27/2020	1/11/2021	\$87,565

⁸ The Beneficiary provided this chart with the highlighted areas as a part of its response.



7	RIVERVIEW HIGH SCHOOL	5/22/2020	12/2/2020	\$140,504
8	DR. CARTER G WOODSON K-8	6/1/2020	10/2/2020	\$117,280
9	YOUNG MAGNET SCHOOL	6/1/2020	12/2/2020	\$80,969
10	GAITHER HIGH SCHOOL	6/2/2020	6/23/2020	\$146,871
11	ROLAND PARK K8	6/6/2020	12/2/2020	\$67,574
12	WILLIAMS MIDDLE SCHOOL	6/22/2020	10/2/2020	\$77,641
13	CRESTWOOD ELEMENTARY SCHOOL	7/6/2020	10/2/2020	\$66,546
14	LAKE MAGDALENE ELEMENTARY	7/7/2020	10/2/2020	\$76,379
15	LOWRY ELEMENTARY SCHOOL	7/8/2020	12/2/2020	\$81,041
16	RAMPELLO DOWNTOWN PARTNERSHIP K8	7/8/2020	12/2/2020	\$56,419
17	TURKEY CREEK MIDDLE SCHOOL	7/14/2020	7/20/2020	\$79,220
18	PLANT CITY HIGH SCHOOL	7/28/2020	11/6/2020	\$145,869
19	SULLIVAN PARTNERSHIP SCHOOL	7/28/2020	10/26/2020	\$7,451
20	LAMB ELEMENTARY SCHOOL (GRADES K-5)	8/3/2020	10/26/2020	\$58,977
21	SOUTH COUNTY CAREER HIGH SCHOOL	8/5/2020	10/26/2020	\$23,943
22	CYPRESS CREEK ELEM SCHOOL	8/10/2020	11/6/2020	\$73,482
23	BOWERS-WHITLEY CAREER CENTER	9/9/2020	11/6/2020	\$16,864
24	SIMMONS CAREER CENTER	9/16/2020	11/6/2020	\$22,456
25	ORANGE GROVE MIDDLE	10/5/2020	10/26/2020	\$47,772
26	TWIN LAKES ELEMENTARY SCHOOL	10/6/2020	10/26/2020	\$51,838
27	EGYPT LAKE ELEMENTARY SCHOOL	10/16/2020	10/26/2020	\$47,110
28	WEBB MIDDLE SCHOOL	10/19/2020	11/6/2020	\$71,607
29	WILSON ELEMENTARY SCHOOL	10/19/2020	10/26/2020	\$33,530
30	WATERS CAREER CENTER	10/27/2020	11/6/2020	\$12,829
31	CHIARAMONTE ELEMENTARY SCHOOL	10/29/2020	11/6/2020	\$52,029
32	WALDEN LAKE ELEMENTARY SCHOOL	11/2/2020	12/16/2020	\$79,035
33	SEFFNER ELEMENTARY SCHOOL	11/3/2020	11/6/2020	\$62,066
34	ADAMS MIDDLE SCHOOL	11/9/2020	12/16/2020	\$73,680
35	TAMPA BAY TECH HIGH SCHOOL	12/7/2020	1/11/2021	\$131,763
Total				\$2,519,549

AAD RESPONSE

In its response, the Beneficiary admits to the late submission of its FCC Form 486. However, also in its response, the Beneficiary provided revised start of service dates for each of the 35 schools. For the purposes of this audit, AAD utilized the start of service dates confirmed by the Beneficiary's documentation provided during the audit of the completed walkthroughs to confirm the installation of the requested equipment. While the Beneficiary has proposed alternative start of service dates for each of these schools, the Beneficiary did not provide documentation to support these alternative dates. 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.⁹ Without sufficient, appropriate evidence supporting the proposed alternative dates, AAD's conclusion based on the initial installation dates supported by the audit evidence obtained from the Beneficiary remains unchanged.

Finding #2: Billed Entity Applicant Reimbursement Form, FCC Form 472, at Block 3 - Beneficiary Over-invoiced E-Rate Program for Ineligible Services

CONDITION

AAD obtained and examined the FCC Form 472 Billed Entity Applicant Reimbursement (BEAR) forms, FCC Form 471, and the corresponding service provider bills provided by the Beneficiary to determine whether it submitted accurate invoices to the E-Rate program for the correct discounted costs of Ethernet services requested by the Beneficiary and approved by the E-Rate program for FRN 1999061983. The Beneficiary invoiced the E-Rate program on its BEAR Form number 3172982 for a total pre-discounted amount of \$1,166,625. However, the total pre-discounted amount of eligible, approved services supported by the service provider bills totaled \$1,100,254. The difference between the eligible pre-discounted costs supported by the service provider bills was \$66,371. Thus, AAD concludes that the Beneficiary over-invoiced the E-rate Program by \$53,097 (\$66,371 * the Beneficiary's 80 percent discount rate).¹⁰

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules requiring the submission of invoices to the E-Rate program for approved, eligible services. In addition, the Beneficiary did not have adequate controls and procedures in place to ensure that the E-Rate program is invoiced only for the discounted costs of approved, eligible locations and services received from and invoiced by the service provider.

The Beneficiary informed AAD that during the Program Integrity Assurance review process, the estimated taxes and fees were separated into a different line item from the cost of service received. The Beneficiary did not realize it over-invoiced for taxes and fees as the combined cost of services received, and taxes and fees charged, were less than the total amount committed for the FRN. Additionally, the Beneficiary conducted its own analysis and determined it underestimated the percentage increase in the Universal Service fee. Furthermore, the Beneficiary informed AAD that it will review the adult centers and develop an allocation for eligible services to those entities.¹¹

EFFECT

The monetary effect for this finding is \$53,097. This amount represents the total funds disbursed by the E-Rate program for the Beneficiary's discounted portion of the services in excess of the amount requested on the FCC Form 471 for FRN 1999061983.

⁹ See U.S. Government Accountability Office, Government Auditing Standards, GAO-18-568G, para. 8.90 (Rev. Jul. 2018) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions.")

¹⁰ 47 C.F.R. § 54.504(a)

¹¹ Beneficiary responses to audit inquiries, received May 17, 2021.



RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$53,097.

The Beneficiary must implement policies, procedures and controls to ensure that it only invoices the E-Rate program for the discounted portion of eligible services and locations that are requested on the FCC Form 471 and committed in a Funding Commitment Decision Letter, as required by the FCC Rules. The Beneficiary may learn more about the FCC Form 471 filing at <https://www.usac.org/e-rate/applicant-process/applying-for-discounts/fcc-form-471-filing/> and invoicing requirements at <https://www.usac.org/e-rate/applicant-process/invoicing/>.

BENEFICIARY RESPONSE:

The audit was conducted prior to the invoice end date for the funding request. The audit finding is limited to the FCC Form 472 Billed Entity Applicant Reimbursement (BEAR) form at the outset. The district was in dispute with the service provider regarding multiple invoice months. The final invoice adjustments included the service provider re-invoicing for additional eligible services provided and removal of several adult centers. The district anticipated additional BEAR forms would need to be submitted to address the adjustments. The actual additional amount under invoiced, if our original Form 471 was utilized, was \$21,804.18. However, the AAD audit pointed out that during the Program Integrity Assurance (PIA) process the estimated taxes and fees for the schools were broken out into a separate line with a maximum cap. Our district is unaware of any program requirement to separate the tax estimate and always has included the tax estimate in the service cost. Due to the PIA change, that portion of the funding request split into the separate line was insufficient to cover the increase in the Federal Universal Service Fund (FUSF) fees for the schools. Due to the taxes line item cap, the district acknowledges the BEAR submitted was overinvoiced a net amount of \$22,404.63. The district is submitting a Form 500 to request \$22,404.63 be transferred from the remaining \$234,149 services line to the Tax and Fees line and cancel the remaining committed balance of \$211,744.37.

Our adjusted spreadsheet documenting our calculations has been uploaded.

AAD RESPONSE

The Beneficiary stated in its response that “the audit finding is limited to the FCC Form 472 Billed Entity Applicant Reimbursement (BEAR) form at the outset.” AAD does not agree with the Beneficiary’s assertion. AAD does not evaluate the Beneficiary’s original FCC Form submissions. Rather, AAD conducts its audits based on the Beneficiary’s final, approved FCC Forms 470, 471, and 472, as well as the applicable documentation that supports these Forms. The approved FCC Form 471 has the estimated taxes and fees for the schools broken out into a separate line item. Thus, AAD concluded the Beneficiary invoiced USAC on its approved FCC Form 472 for more than the amount requested on its approved FCC Form 471.

At the conclusion of AAD’s audit fieldwork, the Beneficiary was still in the process of disputing bills with the service provider, therefore, the bills were not available for testing purposes. AAD reviewed the disputed bills provided by the Beneficiary and determined the Beneficiary had an additional \$34,754 of pre-discounted eligible, approved services. Thus, the Beneficiary had a total of \$1,135,008 of pre-discounted eligible, approved services. As the Beneficiary invoiced E-Rate program for



\$1,166,625 on BEAR Form number 3172982, the difference between the eligible pre-discounted costs supported by the service provider bills and the amount invoiced to E-Rate program was \$31,617. Thus, AAD concludes that the Beneficiary over-invoiced the E-Rate program by \$25,294 (\$31,617 * the Beneficiary's 80 percent discount rate).

For these reasons, AAD reduces the finding's monetary effect from \$53,097 to \$25,294 and recommends that USAC Management seek recovery for this updated amount.

Other Matter #1: Billed Entity Applicant Reimbursement Form, FCC Form 472, at Block 3 – Beneficiary at Risk of Over-Invoicing for Services and Equipment Not Received

CONDITION

AAD obtained and examined documentation including the Beneficiary's FCC Form 471, fixed asset listing (FAL), contract with the Service Provider, and the service provider bills, to determine whether the Beneficiary invoiced USAC for the lesser of services requested on the FCC Form 471 or the cost of the actual services billed and received for FRN 1999066301. AAD determined that the Beneficiary received less equipment than requested on the FCC Form 471 for each of the schools sampled.

On its FCC Form 471, the Beneficiary requested internal connections equipment including switches, access points, racks, uninterrupted power supplies, and cabling to be installed at 35 schools. AAD selected a non-statistical sample of ten school locations, representing 47% of committed funds. AAD compared the requested equipment on the FCC Form 471, per school, to the FAL and the service provider bills. In addition, AAD compared the cost of the equipment billed to the Beneficiary, to the cost of the equipment requested on the FCC Form 471 and the Beneficiary's contract with the Service Provider for the sampled schools. As there is no indication of outstanding invoices for service, AAD determined that the overall quantity and cost of equipment (including installation) received by the Beneficiary was less than the amounts identified in the FCC Form 471 and contract for the sample tested.

Because AAD determined that the Beneficiary received a lesser quantity of equipment than requested, at rates below the requested amounts on the FCC Form 471 for the sample tested, AAD compared the total cost of services billed to the Beneficiary, for each of the 35 schools, to the cost of services requested on the Beneficiary's FCC Form 471. AAD determined that the total cost of services billed for 31 of the 35 schools was less than the services requested on the FCC Form 471, as summarized in the table below:

School	Pre-Discounted Cost of Services Requested per FCC Form 471 A	Pre-Discounted Cost of Service Billed to Beneficiary B	Difference C = A - B
ADAMS MIDDLE SCHOOL	\$92,100	\$59,082	\$33,018
BOWERS-WHITLEY CAREER CENTER ¹²	\$21,081	\$22,025	(\$944)
CHIARAMONTE ELEMENTARY SCHOOL	\$65,036	\$35,039	\$29,997
CRESTWOOD ELEMENTARY SCHOOL	\$83,182	\$53,386	\$29,796

¹² AAD determined this location received services in excess of the amount requested on FCC Form 471. As such, AAD will not recommend a commitment adjustment related to this location.



CYPRESS CREEK ELEM SCHOOL	\$91,852	\$60,649	\$31,203
Dr. Carter G Woodson K-8	\$146,600	\$88,523	\$58,077
EGYPT LAKE ELEMENTARY SCHOOL	\$58,888	\$36,113	\$22,775
GAITHER HIGH SCHOOL	\$183,589	\$129,079	\$54,510
LAKE MAGDALENE ELEMENTARY	\$95,474	\$83,417	\$12,057
LAMB ELEMENTARY SCHOOL (GRADES K-5)	\$73,721	\$39,686	\$34,035
LETO HIGH SCHOOL	\$185,820	\$137,874	\$47,946
LOWRY ELEMENTARY SCHOOL	\$101,301	\$87,307	\$13,994
ORANGE GROVE MIDDLE	\$59,653	\$37,528	\$22,125
PLANT CITY HIGH SCHOOL	\$182,336	\$166,546	\$15,790
PROGRESS VILLAGE MIDDLE SCHOOL	\$109,456	\$56,087	\$53,369
RAMPELLO DOWNTOWN PARTNERSHIP K8	\$70,523	\$57,429	\$13,094
REDDICK ELEMENTARY SCHOOL	\$65,819	\$41,554	\$24,265
RIVERVIEW HIGH SCHOOL	\$175,630	\$158,474	\$17,156
ROBLES ELEMENTARY SCHOOL	\$71,139	\$39,338	\$31,801
ROLAND PARK K8	\$84,467	\$60,659	\$23,808
SEFFNER ELEMENTARY SCHOOL	\$77,583	\$42,234	\$35,349
SIMMONS CAREER CENTER	\$28,070	\$21,488	\$6,582
SOUTH COUNTY CAREER HIGH SCHOOL ¹³	\$29,928	\$37,833	(\$7,905)
SPOTO HIGH SCHOOL	\$136,031	\$102,906	\$33,125
SULLIVAN PARTNERSHIP SCHOOL ¹⁴	\$9,314	\$10,539	(\$1,225)
TAMPA BAY TECH HIGH SCHOOL	\$164,704	\$116,817	\$47,887
THOMPSON ELEMENTARY SCHOOL	\$77,740	\$47,858	\$29,882
TURKEY CREEK MIDDLE SCHOOL	\$99,025	\$74,574	\$24,451
TWIN LAKES ELEMENTARY SCHOOL	\$64,798	\$42,434	\$22,364
WALDEN LAKE ELEMENTARY SCHOOL	\$98,794	\$47,068	\$51,726
WATERS CAREER CENTER ¹⁵	\$16,036	\$42,574	(\$26,538)
WEBB MIDDLE SCHOOL	\$89,508	\$50,054	\$39,454
WILLIAMS MIDDLE SCHOOL	\$97,052	\$60,407	\$36,645
WILSON ELEMENTARY SCHOOL	\$41,913	\$22,505	\$19,408
YOUNG MAGNET SCHOOL	\$101,211	\$77,609	\$23,602
Total	\$3,149,374	\$2,246,695	\$902,679

The Beneficiary is only eligible to invoice the E-Rate program for the lesser of services requested on the FCC Form 471 or the cost of the actual services billed and received. As the Beneficiary has yet to invoice the E-Rate program for the requested services and equipment, the Beneficiary has not violated the FCC Rules related to invoicing. However, the significant variances between the cost of services requested and the cost of services

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*



received has placed the Beneficiary at risk of over-invoicing. In addition, the Beneficiary should file the FCC Form 500 as soon as it becomes aware of circumstances that require an adjustment to one or more FRNs.¹⁶

CAUSE

The Beneficiary did not have adequate controls and procedures in place to determine the equipment necessary to meet the the district's information technology infrastructure needs. The Beneficiary informed AAD that the large variance was a result of reduced equipment required to complete the project. The Beneficiary explicitly stated that the cost associated with cabling on the FCC Form 471 was an average cost for a cabling run, while the invoices were for actual materials required.¹⁷

EFFECT

The monetary effect of this other matter is \$751,434.¹⁸ This amount represents the discounted portion of the difference between the total committed funds and the total cost of services received by the Beneficiary for FRN 1999066301 at the following locations:

School	Monetary Effect A	Overlap with Finding #1 Monetary Effect B	Recommended Commitment Adjustment C = A - B
ADAMS MIDDLE SCHOOL	\$26,414	\$0	\$26,414
CHIARAMONTE ELEMENTARY SCHOOL	\$23,998	\$0	\$23,998
CRESTWOOD ELEMENTARY SCHOOL	\$23,837	\$23,837	\$0
CYPRESS CREEK ELEM SCHOOL	\$24,963	\$24,963	\$0
Dr. Carter G Woodson K-8	\$46,462	\$46,462	\$0
EGYPT LAKE ELEMENTARY SCHOOL	\$18,220	\$0	\$18,220
GAITHER HIGH SCHOOL	\$43,608	\$43,608	\$0
LAKE MAGDALENE ELEMENTARY	\$9,645	\$9,645	\$0
LAMB ELEMENTARY SCHOOL (GRADES K-5)	\$27,228	\$27,228	\$0
LETO HIGH SCHOOL	\$38,357	\$38,357	\$0
LOWRY ELEMENTARY SCHOOL	\$11,196	\$11,196	\$0
ORANGE GROVE MIDDLE	\$17,700	\$0	\$17,700
PLANT CITY HIGH SCHOOL	\$12,632	\$12,632	\$0
PROGRESS VILLAGE MIDDLE SCHOOL	\$42,695	\$42,695	\$0
RAMPELLO DOWNTOWN PARTNERSHIP K8	\$10,475	\$10,475	\$0
REDDICK ELEMENTARY SCHOOL	\$19,412	\$19,412	\$0
RIVERVIEW HIGH SCHOOL	\$13,724	\$13,724	\$0
ROBLES ELEMENTARY SCHOOL	\$25,441	\$25,441	\$0
ROLAND PARK K8	\$19,047	\$19,047	\$0
SEFFNER ELEMENTARY SCHOOL	\$28,279	\$0	\$28,279

¹⁶ See *Instructions for Completing the Universal Service for Schools and Libraries Funding Commitment Adjustment Request Form*. FCC Form 500 Instructions (December 2016).

¹⁷ Beneficiary responses to audit inquiries, received May 17, 2021.

¹⁸ The monetary effect is calculated by multiplying the difference between the total committed funds and the total cost of services received (undiscounted difference of \$902,679 * the Beneficiary's 80 percent discount rate).



SIMMONS CAREER CENTER	\$5,265	\$5,265	\$0
SPOTO HIGH SCHOOL	\$26,500	\$26,500	\$0
TAMPA BAY TECH HIGH SCHOOL	\$38,309	\$0	\$38,309
THOMPSON ELEMENTARY SCHOOL	\$23,906	\$23,906	\$0
TURKEY CREEK MIDDLE SCHOOL	\$19,560	\$19,560	\$0
TWIN LAKES ELEMENTARY SCHOOL	\$17,891	\$0	\$17,891
WALDEN LAKE ELEMENTARY SCHOOL	\$41,381	\$0	\$41,381
WEBB MIDDLE SCHOOL	\$31,564	\$0	\$31,564
WILLIAMS MIDDLE SCHOOL	\$29,316	\$29,316	\$0
WILSON ELEMENTARY SCHOOL	\$15,526	\$0	\$15,526
YOUNG MAGNET SCHOOL	\$18,882	\$18,882	\$0
Total	\$751,434	\$492,151	\$259,282

RECOMMENDATION

AAD recommends that USAC Management reduce the committed amount for FRN 1999066301 by \$259,282.

The Beneficiary must invoice USAC for the lesser of services requested on the FCC Form 471 or the cost of the actual services billed and received, as required by the FCC Rules. In addition, the Beneficiary must implement policies and procedures to file a FCC Form 500 to reduce the funding amount as soon as the Beneficiary is aware of circumstances that require commitment adjustments to one or more FRNs. For more information regarding the FCC Form 500, the Beneficiary may review the guidance provided by USAC E-Rate program at <https://www.usac.org/e-rate/applicant-process/before-youre-done/fcc-form-500-filing/>.

BENEFICIARY RESPONSE

The district acknowledges the district is only eligible to invoice the E-Rate program for the lesser of services requested on the FCC Form 471 or the cost of the actual services billed and received. In certain locations the district provided additional equipment beyond the E-Rate program site budgets, solely at the district's expense, to achieve a complete solution.

CRITERIA

Finding	Criteria	Description
#1	<i>Federal-State Joint Board on Universal Service, Children's Internet Protection Act, CC Docket No. 96-45, Order, 17 FCC Rcd 12443, 12445, para. 5 (2002) (CIPA II Order).</i>	Beginning in Funding Year 2001, which extended from July 1, 2001 to June 30, 2002, applicants have been required to mail their FCC Forms 486 within 120 days of the start of their service or the date of the funding commitment decision letter, whichever is later, in order to receive retroactive funding of discounts going back to the service start date. Where FCC Forms 486 are postmarked after the relevant 120 day period, the service start date for funding purposes is treated as the date 120 days before the postmark date rather than the actual start date. The 120 day rule encourages applicants to take the necessary actions to commence the billing process, which, in turn, allows the program to maximize the efficient use of the allotted funds.
#1	<i>Instructions for Completing the School and Libraries Service (E-Rate Program) Receipt of Service Confirmation and Children's Internet Protection Act and Technology Plan Certification Form. FCC Form 486 Instructions (III.)(B.)(December 2013)</i>	The complete FCC Form 486 – with certification – MUST be received by USAC, submitted online or postmarked no later than 120 days after the Service Start Date featured on the FCC Form 486 or no later than 120 days after the date of your FCDL, whichever is later, in order to receive discounts retroactively to the Service Start Date. If the FCC Form 486 is postmarked later than the deadline, the date 120 days before the FCC Form 486 postmark date will become the start date for discounted services on those FRNs featured on the FCC Form 486. USAC will not provide discounts for the services rendered prior to the new start date and will reduce the funding commitment for the relevant FRN as appropriate.
#2	<i>Billed Entity Applicant Reimbursement Form, FCC Form 472, at Block 3 (2013)</i>	<p>I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to submit this Billed Entity Applicant Reimbursement Form on behalf of the eligible schools, libraries, or consortia of those entities represented on this Form, and I certify to the best of my knowledge, information and belief, as follows:</p> <p>A. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form represent charges for eligible services delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.</p> <p>B. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form were already billed by the service provider and paid by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities.</p> <p>C. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form are for eligible</p>

		<p>services approved by the fund administrator pursuant to a Funding Commitment Decision Letter.</p> <p>D. I recognize that I may be audited pursuant to this application and will retain for at least five years (or whatever retention period is required by the rules in effect at the time of this certification), after the last day of service delivered in this funding year any and all records that I rely upon to fill in this form.</p> <p>E. I certify that, in addition to the foregoing, this Billed Entity Applicant is in compliance with the rules and orders governing the schools and libraries universal service support program, and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments. I acknowledge that failure to comply with the rules and orders governing the schools and libraries universal service support program could result in civil or criminal prosecution by law enforcement authorities.</p>
#2	47 C.F.R. § 54.504(a) (2016).	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.

Other Matter	Criteria	Description
#1	<i>Billed Entity Applicant Reimbursement Form, FCC Form 472, at Block 3 (2013)</i>	<p>I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to submit this Billed Entity Applicant Reimbursement Form on behalf of the eligible schools, libraries, or consortia of those entities represented on this Form, and I certify to the best of my knowledge, information and belief, as follows:</p> <p>A. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form represent charges for eligible services delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.</p> <p>B. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form were already billed by the service provider and paid by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities.</p> <p>C. The discount amounts listed in Column (14) of this Billed Entity Applicant Reimbursement Form are for eligible services approved by the fund administrator pursuant to a Funding Commitment Decision Letter.</p> <p>D. I recognize that I may be audited pursuant to this application and will retain for at least five years (or whatever</p>



		<p>retention period is required by the rules in effect at the time of this certification), after the last day of service delivered in this funding year any and all records that I rely upon to fill in this form.</p> <p>E. I certify that, in addition to the foregoing, this Billed Entity Applicant is in compliance with the rules and orders governing the schools and libraries universal service support program, and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments. I acknowledge that failure to comply with the rules and orders governing the schools and libraries universal service support program could result in civil or criminal prosecution by law enforcement authorities.</p>
#1	<i>Instructions for Completing the School and Libraries Funding Commitment Adjustment Form.</i> FCC Form 500 at Block 3 (December 2016)	<p>Reduce FRN: Complete if you wish to reduce the amount of your funding commitment for a particular FRN. This action is irrevocable and the FRN cannot be increased later. This action would allow money to be put back into the Universal Service Fund for possible commitment to other applicants.</p>

Attachment D

SL2021LR014

Available For Public Use

Queen Bee School District 16

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund E-rate Support Mechanism Rules

USAC Audit No. SL2021LR014

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EXECUTIVE SUMMARY

February 10, 2022

Dr. Joseph R. Williams, Superintendent
Queen Bee School District 16
1560 Bloomingdale Road
Glendale Heights, IL 60139

Dear Dr. Williams:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Queen Bee School District 16 (Beneficiary), Billed Entity Number (BEN) 135404, for Funding Year 2019, 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 the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC 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 (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, 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 FCC 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 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 taken responsibility for the sufficiency of those procedures for their purposes.

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

Sincerely,



Jeanette Santana-Gonzalez
USAC Senior Director, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Craig Davis, USAC Vice President, E-Rate Division
Teleshia Delmar, USAC Vice President, Audit and Assurance Division

Audit Result And Commitment Adjustment/Recovery Action

Audit Result	Monetary Effect (A)	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. 54.511(a) (2019)- Inadequate Competitive Bidding Evaluation - The Beneficiary evaluated the price criterion on its bid evaluation incorrectly failing to evaluate bids based on the price of eligible services as the primary factor.	\$0	\$0
Total Net Monetary Effect	\$0	\$0

USAC MANAGEMENT RESPONSE

USAC Management agrees with the audit results above. USAC also refers the Beneficiary to our website for additional resources. The links are listed below:

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

USAC records indicate 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, 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 E-Rate program support amounts committed and disbursed to the Beneficiary for Funding Year 2019 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$56,270	\$56,270
Internet Access	\$134,026	\$93,126
Total	\$190,296	\$149,396

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 four Funding Request Numbers (FRNs). AAD selected two FRNs of the four FRNs¹, which represent \$132,318 of the funds committed and \$101,336 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2019 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a public school district located in Glendale Heights, Illinois that serves approximately 1,714 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the E-Rate program. 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 FCC Rules. AAD conducted inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which funding was requested. AAD also conducted inquiries 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 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 FCC 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

¹ The FRNs included in the scope of this audit were: 1999032014 and 19999047372.

purchased by the Beneficiary to determine whether funding was and/or will be used in an effective manner.

E. Reimbursement Process

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

DETAILED AUDIT FINDING

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

CONDITION

AAD obtained and examined documentation, including the service provider bids and the Beneficiary's bid evaluation matrices, to determine whether the Beneficiary carefully considered all bids and selected the most cost-effective bid using the price of the eligible products and services as the primary factor for Funding Request Number (FRN) 1999032014. AAD determined that the Beneficiary did not consider the price of the eligible products and services as the primary factor as the Beneficiary did not consider the total cost of each bid.

The Beneficiary received and evaluated bid proposals submitted by four service providers for Category 2 internal connections equipment. The Beneficiary's selection criteria on its bid evaluation matrix included (1) eligible prices/charges, (2) ineligible prices/charges, (3) compatibility with applicant's existing infrastructure, (4) that the quote meets minimum specifications, (5) prior experience, (6) delivery of service timely, and (7) delivery of service per applicable professional standards. The Beneficiary scored the bids as follows, with the highest score representing the most cost-effective score:

Selection Criteria	Maximum Points Available	Service Provider A	Service Provider B	Service Provider C	Aavex
Eligible Prices/Charges	30	20	25 \$80,443	10	30 \$85,100
Ineligible Prices/Charges	15	10	10	7	15
Infrastructure Compatibility	25	10	25	10	25
Meets Minimum Specification	10	5	5	5	10
Prior Experience	10	10	0	0	10
Delivery of Service Timely	5	5	5	5	5
Delivery of Service per Applicable Professional Standards	5	5	4	5	5
Total		65	74	42	100

Although "Eligible Prices/Charges" is the primary factor (assigned 30 points) in the Beneficiary's selection criteria, the bid awarded the most favorable score did not submit the lowest bid for eligible products and services (price criterion). Aavex's quote of \$85,100 was higher than Service Provider B's quote of \$80,443. Queen Bee explained that Aavex was the lowest price bidder of certain core products, which only included the access points, licenses, configuration, and installation.² The Beneficiary only considered the cost of these core products during their bid evaluation rather than the total cost of all eligible products and services for each bid received.³ The core products for Aavex and Service Provider B totaled \$61,600 and \$74,243, respectively. **Aavex's awarded score for price should not have been higher than Service Provider B's score for price.** Therefore, Aavex's overall total score should have been lower. However, even with the

² Beneficiary response to Audit Inquiry Record (AIR 22), received on Oct. 19, 2021.

³ The following are examples of eligible non-core products or services for which Queen Bee requested bids in its 470/RFP: server, switch and transceiver modules totaling \$23,500.

corrected score (i.e., providing Service Provider B with 30 points and Aavex with 25 points), Aavex's bid still would have received the highest total score (i.e., 95 to 79).

The Beneficiary must evaluate the actual dollar amount proposed by a bidder.⁴ Because the Beneficiary only considered the cost of certain core products and not the total cost of eligible products and services in each bid, AAD concludes that the Beneficiary did not evaluate the "Eligible Prices/Charges" criterion on the bid evaluation matrix properly, considering price of the eligible products and services as the primary factor.

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the FCC Rules regarding the bid evaluation process. The Beneficiary informed AAD that the issue was caused "by a lack of notation recorded at the time of the contract evaluation process. The Director of Technology, who was part of the evaluation process has since retired, and we believe that if he were still on staff, he could have provided more detailed justification for the final scoring."⁵

EFFECT

The monetary effect of this finding is zero since the Beneficiary did make the cost effective decision despite evaluating the price criterion incorrectly on its bid evaluation.⁶

RECOMMENDATION

AAD does not recommend USAC seek recovery.

The Beneficiary must enhance its competitive bidding policies and procedures to ensure that the full cost of each bid is considered during the bid evaluation and it is accurately calculated. Further, the Beneficiary may learn more about competitive bidding rules at <https://www.usac.org/e-rate/applicant-process/competitive-bidding/>.

BENEFICIARY RESPONSE

The district stands by its bid selection decision as the bidder that was awarded the contract was the only one that met all of the bid specifications, provided the necessary installation and programming support, and offered a competitive total price. To prevent the inconsistency cited above in future [sic]E-Rate bidding cycles, the district commits to maintaining detailed written justifications for each line item score for each bidder for future reference.

AAD RESPONSE

In its response, the Beneficiary states that it "stands by its bid selection decision" and that the contract was awarded to "the only one [bidder] that met all of the bid specifications" and "offered a competitive total price". AAD reiterates that regardless of the existence of detailed written justifications maintained to support its decision, the FCC Rules require that the total cost of eligible products and services must be the primary factor considered in the bid evaluation. For this reason, AAD's position on this Finding remains unchanged.

⁴ See *Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator*, CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, para. 52 (2003) (*Ysleta Order*).

⁵ Beneficiary responses to the Exception Summary, received Jan. 11, 2022.

⁶ See *Request for Review by the Department of Education of the State of Tennessee of the Decision of the Universal Service Administrator*, CC Docket No. 96-45, et al., Order, 14 FCC Rcd 13734, 13740, para. 13 (1999) (*Tennessee Order*).

CRITERIA

Criteria	Description
47 C.F.R. § 54.511(a) (2019)	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>Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator, CC Docket Nos. 946-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, para. 52 (2003) (Ysleta Order)</i>	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."
<i>Request for Review by the Department of Education of the State of Tennessee of the Decision of the Universal Service Administrator, CC Docket No. 96-45, et al., Order, 14 FCC Rcd 13734, 13740, para. 13 (1999) (Tennessee Order).</i>	"Moreover, to the extent that [the appellant] is suggesting that, when a school evaluates cost in a separate category from other non-cost categories, the school must always award the most points for the cost category to the lowest bidder in order to comply with section 54.504, we cannot agree. While we certainly expect that schools will evaluate the actual dollar amount proposed by a bidder, we do not intend to limit them to considering only the absolute dollar amount proposed such that they must always award the most points in the cost category to the lowest bid. Schools should be free to consider other issues relevant to cost, such as whether the price bid is realistic for the services proposed."

****This concludes the report.****

Attachment E

SL2021LR022

Available For Public Use

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

LOWER KUSKOKWIM SCHOOL DISTRICT

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

USAC AUDIT No. SL2021LR022

Cotton

A  **SIKICH**. COMPANY

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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
LOWER KUSKOKWIM SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

July 28, 2022

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 Assurance and Advisory, LLC (referred to as “we”) audited the compliance of Lower Kuskokwim School District (Beneficiary), Billed Entity Number (BEN) 145563, 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 FCC Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary’s compliance with FCC Rules based on our 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. 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 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 found the Beneficiary did not comply with FCC Rules, as provided in the detailed audit findings discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
Finding No. 1, 47 CFR § 54.501(a)(1) - Beneficiary Over-Invoiced USAC for Equipment Installed in an Ineligible Facility. The Beneficiary installed Category 2 equipment in an ineligible pre-kindergarten classroom.	\$477	\$0	\$477
Finding No. 2, 47 CFR § 54.507(d)(4) – E-Rate Funded Equipment Not Installed by Required Deadline. The Beneficiary did not implement non-recurring Category 2 services by the implementation deadline.	<u>\$6,195</u>	<u>\$0</u>	<u>\$6,195</u>
Total Net Monetary Effect	<u>\$6,672</u>	<u>\$0</u>	<u>\$6,672</u>

USAC Management Response

USAC management agrees with the Audit Results above. The chart below provides the recovery amount. USAC will review other invoices filed by the Beneficiary 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 provide copies of policies and procedures implemented to

address the issues identified. USAC also refers the Beneficiary to our website for additional resources. The links are listed below:

Finding 1:

- <https://www.usac.org/e-rate/applicant-process/before-you-begin/non-traditional-education-eligibility/>
- <https://www.usac.org/e-rate/learn/webinars/> (“E-rate Invoicing Process”). Please see 3:40 to 33:50 for invoicing requirements and 34:00 to 54:50 for related Q&A session.

Finding 2:

- <https://www.usac.org/e-rate/learn/webinars/> (“E-Rate Equipment Transfers”). Please see 7:00 to 27:05 for equipment transfer requirements and 28:35 to 49:00 for related Q&A session.

USAC records indicate the Beneficiary is currently subscribed to the 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
1999073044	\$6,672

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Year 2019. The Beneficiary is a school district that serves Bethel, Alaska and a number of local villages, serving more than 4,000 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for Funding Year 2019, as of May 26, 2021, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$29,483,244	\$29,311,225
Internal Connections	\$138,672	\$138,672
Total	\$29,621,916	\$29,449,897

The “amount committed” total represents four FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2019 that resulted in four Funding Request Numbers (FRNs). We selected a sample of three of the FRNs, which

represent \$28,940,652 of the funds committed and \$28,940,652 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 and direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its 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 goods and 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 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 equipment and services identified on the FCC Form 474, *Service Provider Invoices (SPIs)*, and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

D. Site Visit

We performed a physical inventory to evaluate the location and use of equipment and services to determine whether they were properly delivered and installed, located in eligible facilities, and used in accordance with 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 service provider submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed invoices associated with the SPI forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the SPI forms and corresponding service provider bills were consistent with the terms and specifications of

the service provider agreements and were eligible in accordance with the E-Rate Program Eligible Services List.

Detailed Audit Findings

Finding No. 1, 47 CFR § 54.501(a)(1)¹ - Beneficiary Over-Invoiced USAC for Equipment Installed in an Ineligible Facility

Condition

The Beneficiary installed Category 2 equipment in an ineligible facility. Specifically, the Beneficiary acquired access points for an eligible elementary school; however, it installed one access point in a pre-kindergarten classroom. Because pre-kindergarten education does not fall under the State of Alaska's state definition of elementary school it is not eligible for E-Rate program support. Thus, this classroom and the pre-kindergarten students are not eligible for E-Rate supported Category 2 equipment. As a result of our audit, the Beneficiary relocated the access point to a second grade classroom.

Cause

The Beneficiary did not have sufficient, appropriate policies and procedures in place to ensure it did not erroneously install E-rate supported Category 2 equipment in ineligible locations.

Effect

The cost of the equipment installed in the pre-kindergarten classroom was \$561. The monetary effect of this finding is therefore \$477 (\$561 multiplied by the Beneficiary's 85 percent discount rate).

FRN/Support Type	Monetary Effect	Recommended Recovery
1999073044 (Internal Connections)	<u>\$477</u>	<u>\$477</u>
Total	<u>\$477</u>	<u>\$477</u>

Recommendation

We recommend:

1. USAC management recover the amount identified in the Effect section above.

¹ See also, USAC Eligibility Table for Non-Traditional Education for Alaska available at <https://www.usac.org/e-rate/applicant-process/before-you-begin/non-traditional-education-eligibility/eligibility-table-for-non-traditional-education/#AK>.

2. The Beneficiary strengthen its policies and procedures for installing E-Rate supported Category 2 equipment to ensure equipment is only installed in eligible facilities.

Beneficiary Response

We have strengthened our procedures to ensure equipment is installed in eligible facilities.

Finding No. 2, 47 CFR § 54.507(d)(4)² – E-Rate Funded Equipment Not Installed by Required Deadline

Condition

The Beneficiary did not implement \$7,288 in non-recurring Category 2 services by the service implementation deadline. Specifically, the Beneficiary acquired 13 pieces of equipment using E-Rate Program funding but did not install the equipment by the Funding Year 2019 extended deadline of September 30, 2021. The Beneficiary requested an additional extension of the installation deadline because the intended location for the equipment was still under construction. Although the Beneficiary requested this additional extension prior to the September 30, 2021, deadline, USAC dismissed the request because it had already disbursed funds for the non-recurring services, and the Beneficiary did not qualify for an additional extension under FCC Rules. As such, the Beneficiary did not install its equipment timely, as required by FCC Rules.

Cause

The Beneficiary lacked sufficient infrastructure to install the equipment and did not have sufficient policies and procedures to ensure that it requested installation extensions when appropriate.

Effect

The cost of the uninstalled equipment was \$7,288. The monetary effect of this finding is therefore \$6,195 (\$7,288 multiplied by the Beneficiary's 85 percent discount rate).

FRN/Support Type	Monetary Effect	Recommended Recovery
1999073044 (Internal Connections)	<u>\$6,195</u>	<u>\$6,195</u>
Total	<u>\$6,195</u>	<u>\$6,195</u>

Recommendations

We recommend:

1. USAC management recover the amount identified in the Effect section above.

² See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, Order, CC Docket No. 02-6, DA 20-364, para. 6 (April 2020) (*Service Delivery Deadline Waiver Order*).

2. The Beneficiary strengthen its procedures for installing non-recurring services by the applicable deadline(s); and
3. The Beneficiary strengthen its procedures for requesting extensions when it is unable to implement non-recurring services by the applicable deadline(s).

Beneficiary Response

We have installed a portion of the equipment in the KLA [Kuskokwim Learning Academy] facility. The other equipment has not been installed, as we are awaiting completion of the construction of the new facility. We are willing to return the remaining, uninstalled devices OR pay for their value.

Auditor Response

The Beneficiary provided evidence of the installation of three pieces of equipment in the KLA facility. We have updated the finding to reference 13 rather than 16 pieces of uninstalled equipment and reduced the finding's monetary effect and recommended recovery.

Criteria

Finding	Criteria	Description
1	47 CFR § 54.501(a)(1) (2018)	<i>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.</i>
1	USAC Eligibility Table for Non-Traditional Education at https://www.usac.org/e-rate/applicant-process/before-you-begin/non-traditional-education-eligibility/eligibility-table-for-non-traditional-education/#AK	<i>The eligibility table for non-traditional K-12 students and facilities provides information on Schools and Libraries (E-rate) program support eligibility for students and facilities in Head Start, pre-kindergarten, adult education, and juvenile justice programs. To be eligible for support, schools must provide elementary or second education as determined by state law.</i>

Finding	Criteria	Description
	(last visited July 1, 2022)	
2	47 CFR § 54.507(d)(4) (i-iv) (2018)	<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 the Administrator on or after March 1 of the funding year for which discounts are authorized; (iii) The applicant's service provider is unable to complete implementation for reasons beyond the service provider's control; or (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>
2	<i>In the Matter of Schools and Libraries Universal Service Support Mechanism, Order, CC Docket No. 02-6, DA 20-364, para. 6 (April 2020) (Service Delivery Deadline Waiver Order).</i>	<i>"First, we waive the service delivery deadline for non-recurring services for all funding year 2019 applicants, as well as for applicant from prior funding years that already received an extension of the deadline to September 30, 2020, and we extend the deadline an additional year from September 30, 2020 to September 30, 2021..."</i>

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC

A handwritten signature in dark ink, appearing to read 'JB', with a stylized, looping flourish extending from the end.

Jason Boberg, CPA, CFE
Partner
Alexandria, VA

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: September 2022

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Paloma Elementary School District Attachment F	0	<ul style="list-style-type: none"> Not applicable. 	\$1,568,483	\$0	\$0	\$0	N/A
Total	0		\$1,568,483	\$0	\$0	\$0	

Available For Public Use

Attachment F

SL2022LR022

Available For Public Use

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

PALOMA ELEMENTARY SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES

USAC AUDIT No. SL2022LR022



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PALOMA ELEMENTARY SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

September 2, 2022

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 Assurance and Advisory, LLC (referred to as “we”) audited the compliance of Paloma Elementary School District (Beneficiary), Billed Entity Number (BEN) 142994, 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 FCC Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary’s compliance with FCC Rules based on our 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.

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

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

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Year (FY) 2020. The Beneficiary is a school district located in Maricopa County, Arizona, that serves more than 100 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2020 as of May 9, 2022, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	<u>\$1,590,083</u>	<u>\$1,568,483</u>
Total	<u>\$1,590,083</u>	<u>\$1,568,483</u>

The “amount committed” total represents two FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2020 that resulted in two approved Funding Request Numbers (FRNs). We selected a sample of one of the two FRNs, which represents \$1,568,483 of the funds committed and \$1,568,483 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. 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. 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. 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 E-Rate program Eligible Services List.

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC



Jason Boberg, CPA, CFE
Partner