



# Schools and Libraries Committee Meeting

## Audit Reports Briefing Book

Monday, October 30, 2023

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Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

*Summary of the Schools and Libraries Support Mechanism Beneficiary Audit Report Released: July 2023.*

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Zones Corporate Solutions, Inc.  <b>Attachment A</b>	1	<ul style="list-style-type: none"> <li><u>E-Rate Funded Equipment Not Installed by Required Deadline.</u> The Beneficiary did not install Internal Connections equipment prior to the service delivery deadline.</li> </ul>	\$1,227,386	\$39,096	\$39,096	\$0	N/A
<b>Total</b>	<b>1</b>		<b>\$1,227,386</b>	<b>\$39,096</b>	<b>\$39,096</b>	<b>\$0</b>	

**Attachment A**

**SL2021SP033**

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# Zones Corporate Solutions, Inc.

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

USAC Audit No. SL2021SP033

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**Finding:** 47 C.F.R. § 54.507(d)(4) – E-Rate Funded Equipment Not Installed by Required  
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## EXECUTIVE SUMMARY

March 28, 2022

Dominic Camden, SVP and Chief Sales Officer  
Zones Corporate Solutions, Inc.  
1102 15<sup>th</sup> St. SW, Suite 102  
Auburn, WA 98001

Dear Dominic Camden:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Zones Corporate Solutions, Inc. (Service Provider), Service Provider Identification Number (SPIN) 143030023, 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 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 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 type and amount of services provided by the Service Provider to E-Rate program applicants (selected Beneficiaries), as well as performing other procedures AAD considered necessary to make a determination regarding the Service Provider's compliance with the 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 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 Service Provider, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,



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 RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery
<p><b>Finding: 47 CFR § 54.507(d)(4) – E-Rate Funded Equipment Not Installed by Required Deadline.</b> The Beneficiary did not install Internal Connections equipment prior to the service delivery deadline.</p>	\$39,096	\$39,096

## USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Result stated above. See the chart below for 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. Various links are listed below:

- <https://www.usac.org/e-rate/learn/webinars/> (“E-Rate Equipment Transfers”; July 27, 2021). Please see 7:00 to 27:05 for equipment transfer requirements and 28:35 to 49:00 for related Q&A session.
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2021/07-27-2021-E-Rate-Equipment-Transfers-Webinar-Slides.pdf> (please see slides 10-48).
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2021/07-27-2021-Procedure Filing Guideline Infograph.pdf>

USAC records show the Beneficiary is currently subscribed to the E-Rate weekly News Brief. USAC encourages the Beneficiary to review the News Brief as it contains valuable information about the E-Rate program.

FRN	Recovery Amount
1999034333	\$39,096

## PURPOSE, SOURCE, SCOPE 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 2019 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$1,317,170	\$1,226,789
Basic Maintenance of Internal Connections	\$6,206	\$597
<b>Total</b>	<b>\$1,323,376</b>	<b>\$1,227,386</b>

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

The committed total represents 43 FCC Form 471 applications with 66 Funding Request Numbers (FRNs). AAD selected three FRNs of the 66 FRNs<sup>1</sup>, which represent \$685,214 of the funds committed and \$668,739 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 selected Beneficiaries.

## BACKGROUND

The Service Provider provides information technology services and its headquarters are located in Auburn, Washington.

## 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 equipment was 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 Forms 470.

### B. Competitive Bid Process

AAD conducted inquiries and examined documentation to determine whether the Service Provider participated in or appeared to have influenced the selected Beneficiaries' competitive bidding processes. AAD reviewed the Service Provider's contracts (if applicable) with the selected Beneficiaries to determine whether the contracts were properly executed. AAD evaluated the equipment requested and purchased to determine whether the Service Provider provided the equipment requested in the selected Beneficiaries' FCC Forms 471. AAD also examined documentation to determine whether the Service Provider offered the selected Beneficiaries the lowest corresponding price charged for similar equipment to non-residential customers similarly situated to the selected Beneficiaries.

### C. Billing Process

AAD reviewed the FCC Form 474 Service Provider Invoices (SPIs) for which payment was disbursed by USAC to determine whether the equipment identified on the SPIs, and corresponding service provider bills, was 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 equipment to non-residential customers similarly situated to the selected Beneficiaries. In addition, AAD examined documentation to determine whether the Service Provider

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<sup>1</sup> The FRNs included in the scope of this audit were: 1999037777, 1999009928, and 1999034333.

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

**D. Site Visit**

AAD performed a virtual site visit to evaluate the location and use of equipment and services to determine whether it was delivered and installed and located in eligible facilities.

**E. Reimbursement Process**

AAD obtained and examined the SPIs submitted for reimbursement for the equipment delivered to the selected Beneficiaries and performed procedures to determine whether USAC was invoiced properly. Specifically, AAD reviewed service provider bills associated with the SPIs for equipment provided to the selected Beneficiaries. AAD determined whether the Service Provider billed the selected Beneficiaries for only the non-discount portion of the cost, or if the Service Provider issued credits on the Service Provider bills to the selected Beneficiaries.

## DETAILED AUDIT FINDING

**Finding:** 47 C.F.R. § 54.507(d)(4) – E-Rate Funded Equipment Not Installed by Required Deadline

### CONDITION

AAD obtained and examined the FCC Form 471 and corresponding fixed asset listing (FAL) provided by Weld County School District #6 (Beneficiary) to select a sample of equipment for a virtual site visit and determine whether the internal connections equipment (i.e., non-recurring services) purchased under FRN 1999034333 for Funding Year (FY) 2019 were installed in a timely manner. Out of the total 138 uninterrupted power supply (UPS)/ battery backup units received, the Beneficiary did not install 30 model SMX3000LV and 30 model SMX120BP UPS/ battery backup units and make sure they were operational prior to the service delivery deadline of September 30, 2021.<sup>2</sup>

The Beneficiary explained that out of the 60 uninstalled UPS/battery backup units, 32 would be installed in a new school that will open in Spring 2022.<sup>3</sup> However, the Beneficiary did not request an extension of the service delivery deadline for the 32 units that will be installed at the new school.<sup>4</sup> Additionally, the Beneficiary also explained that 28 units were currently being stored at a warehouse.<sup>5</sup> The pre-discounted cost of the equipment that was not installed on or before the non-recurring services deadline is summarized below:

FRN	Model	Quantity	Unit Price	Total Price	Discount Rate	Discounted Cost
1999034333	SMX3000LV	30	\$1,135	\$34,050	80%	\$27,240
	SMX120BP	30	\$494	\$14,820	80%	\$11,856
<b>Total</b>						<b>\$39,096</b>

Because the Beneficiary installed the equipment after the implementation deadline and did not file a request with the E-Rate program for an extension of the implementation deadline, AAD concludes that the Beneficiary did not install internal connections equipment by the required deadline.

### CAUSE

The Beneficiary did not have adequate controls and procedures in place to ensure that equipment is either installed prior to the service delivery deadline or an FCC Form 500 is filed to request a service delivery deadline extension. The Beneficiary stated that they did not file an FCC Form 500 to request a service delivery deadline extension because they do not know when the equipment will be installed since the building is still under construction.<sup>6</sup>

<sup>2</sup> 47 C.F.R. § 54.507(d)(4) (2018); see also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, 35 FCC Rcd 2978, 2980, para. 6 (WCB Apr. 1, 2020) (extending the service delivery deadline for non-recurring services to September 30, 2021 for all Funding Year 2019 applicants).

<sup>3</sup> See Beneficiary's responses to AAD's AIR question #1 received on August 11, 2021.

<sup>4</sup> See *supra* n.2.

<sup>5</sup> See *supra* n.3.

<sup>6</sup> See email sent by Brenda Haynes (E-Rate Consultant) to AAD (received on Jan. 29, 2022).

#### EFFECT

The monetary effect of this finding is \$39,096. This amount represents the discounted cost of the 60 uninstalled UPS/battery backup units purchased under FRN 1999034333 that were not installed and in use prior to the service delivery deadline.

#### RECOMMENDATION

AAD recommends that USAC management seek recovery of \$39,096 from the Beneficiary.

The Beneficiary must implement policies, controls, and procedures to ensure that internal connection equipment (i.e., non-recurring services) is installed and operational by the implementation deadline. In addition, in the future, AAD recommends that the Beneficiary file a request for an extension, if any service delivery delays are anticipated. The Beneficiary can learn more about the process to request a service delivery deadline extension at <https://www.usac.org/e-rate/applicant-process/before-youre-done/service-delivery/>. Also, the Beneficiary can learn more about the E-Rate program's training opportunities on USAC's website at <https://www.usac.org/e-rate/trainings/> and keep current on E-Rate news at <https://www.usac.org/e-rate/resources/news-brief/>.

#### BENEFICIARY RESPONSE

Weld County School District 6 has already implemented substantial inventory controls for all current and future projects.

#### CRITERIA

The 47 C.F.R. § 54.507(d)(4) (2018) states:

“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.”

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

*Summary of the Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: August 2023.*

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Baltimore City School District  <b>Attachment B</b>	1	<ul style="list-style-type: none"> <li><u>Untimely Payment of the Beneficiary's Non-Discounted Share to the Service Provider.</u> The Beneficiary did not consistently pay the non-discounted portion of its Service Provider's bills within 90 days after the Service Provider billed for the services.</li> </ul>	\$2,717,796	\$1,199,330	\$0	\$0	N
Crown Castle Fiber LLC  <b>Attachment C</b>	2	<ul style="list-style-type: none"> <li>No significant findings.</li> </ul>	\$60,897,229	\$7,788	\$900	\$0	Partial
Clark County School District  <b>Attachment D</b>	2	<ul style="list-style-type: none"> <li>No significant findings.</li> </ul>	\$3,325,753	\$4,032	\$4,032	\$0	N
New York City Department of Education  <b>Attachment E</b>	1	<ul style="list-style-type: none"> <li><u>Untimely Payment of the Beneficiary's Non-Discounted Share to the Service Provider.</u> The Beneficiary did not</li> </ul>	\$12,769,256	\$1,535,098	\$0	\$0	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
		consistently pay the non-discounted portion of its Service Provider's bills within 90 days after the Service Provider billed for the services.					
Salinas Union High School District  <b>Attachment F</b>	1	<ul style="list-style-type: none"> <li>No significant findings.</li> </ul>	\$1,772,535	\$527	\$0	\$0	Y
<b>Total</b>	<b>7</b>		<b>\$81,482,569</b>	<b>\$2,746,775</b>	<b>\$4,932</b>	<b>\$0</b>	

**Attachment B**

**SL2021LR040**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
PERFORMANCE AUDIT**

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**BALTIMORE CITY SCHOOL DISTRICT  
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND  
E-RATE SUPPORT MECHANISM RULES**

**USAC AUDIT No. SL2021LR040**

**Cotton**

A  **SIKICH**. COMPANY

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    FINDING No. 1 47 C.F.R. § 54.523 (2018) – UNTIMELY PAYMENT OF THE BENEFICIARY NON-  
    DISCOUNT SHARE TO THE SERVICE PROVIDER ..... 4

**CRITERIA ..... 6**

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

## **Executive Summary**

**August 16, 2023**

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 (referred to as “we”) audited the compliance of Baltimore City School District<sup>1</sup> (Beneficiary), Billed Entity Number (BEN) 126376, 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, pursuant to 47 C.F.R. Section 54.516 (c).

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers and 2) data used to calculate the discount percentage and the type and amount of services received. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with FCC Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding, discussed in the Audit Results and Recovery Action section below. For the purpose of this

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<sup>1</sup> Baltimore City School District is also referred to as Baltimore City Public Schools.

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 that the Beneficiary did not comply with FCC Rules, as provided in the one detailed audit finding discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<p><b>Finding No. 1 47 C.F.R. § 54.523 (2018) – Untimely Payment of the Beneficiary Non-Discount Share to the Service Provider.</b>                      The Beneficiary did not consistently pay the non-discounted portion of its Service Provider’s bills within 90 days after the Service Provider billed for the services.</p>	<u>\$1,199,330</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Net Monetary Effect</b>	<u>\$1,199,330</u>	<u>\$0</u>	<u>\$0</u>

**USAC Management Response**

USAC Management agrees with the Audit Results above. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified. USAC also refers the Beneficiary to our website for additional resources. The links are listed below:

- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>
- <https://www.usac.org/wp-content/uploads/about/documents/fcc-orders/1997-fcc-orders/FCC-97-157.pdf> (please see paragraph 493, pages 260-261)
- <https://docs.fcc.gov/public/attachments/FCC-04-190A1.pdf> (please see paragraph 24, page 9)

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, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the FCC Rules for Funding Year (FY) 2019. The Beneficiary is a public school district located in Baltimore, Maryland, that serves approximately 80,000 students.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Beneficiary for FY 2019, as of August 18, 2021, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$6,401,599	\$2,717,796
<b>Total</b>	<b>\$6,401,599</b>	<b>\$2,717,796</b>

The “amount committed” total represents two FCC Form 471, *Description of Services Ordered and Certification*, applications submitted by the Beneficiary for FY 2019 that resulted in five Funding Request Numbers (FRNs). We selected all of the FY 2019 FRNs for our sample. 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 has adequate controls in place. We performed inquiries to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

### B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) primarily considered the price of the eligible services in selecting the Service Provider. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC’s website before signing contracts with the selected Service Providers.

### C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the services identified on the FCC Form 472, *Billed Entity Applicant Reimbursement (BEAR) Forms*, and FCC Form 474, *Service Provider Invoice (SPI) Forms*, 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 service invoices that the Beneficiary and Service Provider submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary and Service Provider had properly invoiced USAC. Specifically, we reviewed invoices associated with the BEAR and SPI Forms for services provided to the Beneficiary. We verified that the services identified on the BEAR and SPI Forms and corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider agreements and were eligible in accordance with the E-Rate Eligible Services List.

### **Detailed Audit Finding**

#### **Finding No. 1 47 C.F.R. § 54.523 (2018) – Untimely Payment of the Beneficiary Non-Discount Share to the Service Provider<sup>2</sup>**

##### **Condition**

The Beneficiary did not consistently pay its Service Provider's bills for Internet access services under FRNs 1999047782, 1999047851, 1999051823, and 1999052859 within 90 days after services were completed. ENA Services, LLC (ENA) was the Service Provider for these FRNs. Specifically, we noted the following untimely payments to this Service Provider:

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<sup>2</sup> See 47 C.F.R. § 54.523; see also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Red. 15808, 15816, at para. 24 (2004) (finding “that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the FCC’s] rule that the beneficiary must pay its share.”).

Bill Date	Check Date	Days Between Bill Date and Check Date	Amount <sup>3</sup>
July 31, 2019	December 12, 2019	134	\$237,700
August 31, 2019	December 12, 2019	103	\$237,700
July 31, 2019	January 30, 2020	183	\$9,450
August 31, 2019	January 30, 2020	152	\$9,450
September 30, 2019	January 30, 2020	122	\$233,839
September 30, 2019	January 30, 2020	122	\$9,450
October 31, 2019	January 30, 2020	91	\$234,350
October 31, 2019	January 30, 2020	91	\$9,450
February 29, 2020	January 20, 2021	326	\$235,575
February 29, 2020	January 20, 2021	326	\$9,450
May 31, 2020	January 20, 2021	234	\$9,450
June 30, 2020	January 20, 2021	204	\$9,450
July 22, 2021	October 27, 2021	97	\$129,942

### Cause

The Beneficiary did not have internal controls in place to ensure that it complied with FCC Rules regarding the payment of its non-discounted share of costs for eligible services. Although the Beneficiary's normal process for invoice payments included a three-way matching process between the purchase order verification, invoice verification, and goods/service confirmation, the process did not include the execution of timely payment.

### Effect

The monetary effect of this finding is \$1,199,330. Because the Beneficiary ultimately paid the non-discounted share of the funded services, we are not recommending recovery for this finding.

Support Type	Monetary Effect	Recovery Action
<i>BEAR Forms</i>		
Internet FRN 1999047782	\$66,150	\$0
Internet FRN 1999047851	\$799,343	\$0
Internet FRN 1999051823	\$203,895	\$0
<i>SPI Forms (10% Non-Discount)</i>		
Internet FRN 1999052859	<u>\$129,942</u>	<u>\$0</u>
<b>Total</b>	<b><u>\$1,199,330</u></b>	<b><u>\$0</u></b>

### Recommendation

We recommend that the Beneficiary establish and implement internal control policies and procedures to ensure that it pays service providers within 90 days after completion of service.

<sup>3</sup> Amounts include payments for bills that are unrelated to the in-scope FRNs.

### Beneficiary Response

*Baltimore City Public Schools agrees with the auditors' finding and recommendation. We are currently in the process of reviewing and revising our internal policies and procedures to ensure that service provider bills are paid within the acceptable timeframe established by the Federal Communications Commission.*

### Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.523 (2018)	<i>An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd. 15808, 15816, at para. 24 (2004)</i>	<i>...Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the FCC's] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services.... Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the] rule that the beneficiary must pay its share.</i>

Cotton & Company Assurance and Advisory LLC

Megan P. Mesko, CPA, CFE



Partner  
Alexandria, VA

**Attachment C**

**SL2021SP039**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**PERFORMANCE AUDIT**

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**CROWN CASTLE FIBER LLC**

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

**USAC AUDIT No. SL2021SP039**

**Cotton**

A  **SIKICH**. COMPANY

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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
CROWN CASTLE FIBER LLC  
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND  
E-RATE SUPPORT MECHANISM RULES**

## **Executive Summary**

**August 16, 2023**

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division  
Universal Service Administrative Company  
700 12<sup>th</sup> 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 Crown Castle Fiber LLC (Service Provider), Service Provider Identification Number (SPIN) 143005274, for Funding Year (FY) 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 FCC Rules is the responsibility of Service Provider management. Our responsibility is to make a determination regarding the Service Provider’s compliance with FCC Rules based on our audit, pursuant to 47 C.F.R. Section 54.516 (c).

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 type and amount of services that the Service Provider provided to E-Rate applicants in the states of California, Florida, Massachusetts, New Jersey, New York, and Pennsylvania (selected Beneficiaries), and 2) performing other procedures we considered necessary to make a determination regarding the Service Provider’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 Service Provider, 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 that several beneficiaries did not comply with FCC Rules, as provided in the two detailed audit findings discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<b>Finding No. 1, FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3 – Beneficiaries Invoiced E-Rate Program for Ineligible Locations, Unapproved Services, and Amounts Not Reconciled to the Service Provider’s Bills.</b> Four Beneficiaries invoiced USAC for amounts that included ineligible locations and unapproved services and that exceeded the eligible costs the Service Provider billed.	\$5,356	\$0	\$900
<b>Finding No. 2, 47 C.F.R § 54.523 (2018) – Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider.</b> One Beneficiary did not consistently pay the Service Provider’s invoices in a timely manner.	<u>\$2,432</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Net Monetary Effect</b>	<b><u>\$7,788</u></b>	<b><u>\$0</u></b>	<b><u>\$900</u></b>

### USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. USAC may review other invoices filed by the Beneficiaries 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 Beneficiaries provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Beneficiaries to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Invoice Training Webinar, February 10, 2022)
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2022/E-Rate-Invoice-Training-Webinar-2022-Slides.pdf>
- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Program Overview, November 16, 2021)
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>

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

FRN	Recovery Amount
1999031659	\$900

### Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Service Provider complied with FCC Rules for FY 2019. The Service Provider is headquartered in Houston, Texas, and provides Internet access services to customers nationwide.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Service Provider for FY 2019 as of July 27, 2021, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$88,265,526	\$60,897,229
<b>Total</b>	<b><u>\$88,265,526</u></b>	<b><u>\$60,897,229</u></b>

The “amount committed” total represents 812 FCC Form 471 *Description of Services Ordered and Certification* applications submitted by Beneficiaries for FY 2019 that resulted in 812 Funding Request Numbers (FRNs). We selected a sample of 35 FRNs, which represent \$3,626,638 of the funds committed and \$2,976,475 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

#### A. Eligibility Process

We conducted inquiries with the Service Provider and the selected Beneficiaries and examined documentation to determine whether services were eligible and had been delivered and installed in accordance with FCC Rules. We also conducted inquiries and examined documentation to determine if the Service Provider was eligible to perform services, as well as to obtain general background information.

## **B. Competitive Bid Process**

We reviewed the Service Provider's contracts (if applicable) with the selected Beneficiaries to determine whether the contracts were properly executed. We evaluated the services requested and purchased to determine whether the services provided by the Service Provider matched those requested in the selected Beneficiaries' FCC Form 471 documents.

## **C. Billing Process**

We reviewed the FCC Form 472s, *Billed Entity Applicant Reimbursements (BEAR) Forms*, and FCC Form 474s, *Service Provider Invoice (SPI) Forms*, for which USAC disbursed payment to determine whether the services identified on the BEAR and SPI Forms and corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider's contracts and were eligible in accordance with the E-Rate Eligible Services List. We also examined documentation to determine whether the Service Provider charged the selected Beneficiaries the lowest corresponding price charged for similar services billed to non-residential customers similarly situated to the selected Beneficiaries.

## **D. Reimbursement Process**

We obtained and examined the BEAR and SPI Forms submitted to USAC for reimbursement for the services delivered to the selected Beneficiaries and performed procedures to determine whether the Beneficiaries and Service Provider had properly invoiced USAC. Specifically, we reviewed Service Provider bills associated with the BEAR and SPI forms for services provided to the selected Beneficiaries. We determined whether the Service Provider issued credits on its bills to the selected Beneficiaries.

## **Detailed Audit Findings**

### **Finding No. 1, FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3 – Beneficiaries Invoiced E-Rate Program for Ineligible Locations and Amounts Not Reconciled to the Service Provider's Bills<sup>1</sup>**

#### **Condition**

Three Beneficiaries invoiced USAC for amounts that exceeded the eligible costs the Service Provider billed. Specifically, we identified the following instances in which the Beneficiaries invoiced USAC for amounts that did not reconcile to the Service Provider's bills:

- **Monroe County Library System, FRN 1999006627.** The Beneficiary invoiced USAC pre-discount costs of \$20,700 for FY 2019 Internet access services, based on the \$1,725 Monthly Recurring Cost (MRC) approved for funding in USAC's Funding Commitment Decision Letter (FCDL). However, because the Service Provider continued to bill the Beneficiary an MRC of \$1,440 throughout FY 2019, the Beneficiary was only billed a

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<sup>1</sup>See also, 47 C.F.R § 54.501(a)(1) (2018).

total of \$17,280 for FY 2019 services, or \$3,420 less than the amount the Beneficiary invoiced USAC in FY 2019.

- **Ben Gamia Hollywood, FRN 1999025115.** The Beneficiary invoiced USAC pre-discount costs of \$19,200 for FY 2019 Internet access services, based on its contract with the Service Provider for upgraded 1 Gbps service at a MRC of \$1,600, as requested on its FCC Form 471. However, because the Service Provider continued to bill for 300 Mbps at an MRC of \$1,300 through until January 2020, the Beneficiary was only billed a total of \$16,903 for FY 2019 services, or \$2,297 less than the amount the Beneficiary invoiced USAC in FY 2019.
- **Philadelphia School District, FRN 1999031659.** The Beneficiary invoiced USAC pre-discount costs of \$1,000 for Internet access services provided to a school within its district that was managed by an outside entity and was therefore not eligible for E-Rate funding. As of our audit announcement date, the Beneficiary had invoiced USAC for five months of FY 2019 services at the ineligible location, at a cost of \$200 per month.

**Cause**

The Beneficiaries did not have adequate controls in place to ensure the amounts they invoiced to USAC were accurate and only for eligible locations.

**Effect**

The effect for each FRN is as follows:

- **Monroe County Library System, FRN 1999006627.** The Beneficiary over-invoiced USAC by \$3,078 (\$3,420 multiplied by the beneficiary’s 90 percent discount rate). Because the Beneficiary already reimbursed USAC for this amount, we are not recommending recovery.
- **Ben Gamia Hollywood, FRN 1999025115.** The Beneficiary over-invoiced USAC by \$1,378 (\$2,297 multiplied by the Beneficiary’s 60 percent discount rate). Because the beneficiary already reimbursed USAC for this amount, we are not recommending recovery.
- **Philadelphia School District, FRN 1999031659.** The Beneficiary over-invoiced USAC by \$900 (\$1,000 multiplied by the Beneficiary’s 90 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Internet Access FRN 1999006627	\$3,078	\$0
Internet Access FRN 1999025115	\$1,378	\$0
Internet Access FRN 1999031659	\$900	\$900
<b>Total</b>	<b><u>\$5,356</u></b>	<b><u>\$900</u></b>

## **Recommendations**

We recommend that:

1. USAC management seek recovery of the amounts identified in the Effect section above.
2. The Beneficiaries implement controls to ensure that invoices are accurate and only include costs for services approved by USAC to eligible locations.

## **Beneficiary Responses**

### **Ben Gamia Hollywood**

*To prevent this from happening again, the school will work with the providers to ensure that any upgrades are handled in a timely fashion to avoid changes in cost mid-year. In addition, we will run a payment report that will verify any discrepancies vs. what we applied for.*

### **Monroe County Library System**

*During funding year 2019 the Senior Administrative Analyst for the MCLS, and sole USAC EPC administrator, retired; with civil service hiring procedures the position was vacant for approximately 60 days. The new hire was reliant on notes and internal training and in her first months when completing 471s for the first time. The filed reimbursement was inadvertently based on contracted MRC costs, not the culmination of monthly invoices.*

*This difference in contract versus final billing (\$3,420) represented less than 1.5% of the MCLS' Category 1 reimbursements for the funding year, and 0.9% of all Category reimbursements for the funding period.*

*We dispute the finding of adequate controls given the successful USAC audit of the MCLS completed in November 2020 for funding year 2018 (FRNs 1899006751 and 1899069474). We are including the MCLS E-rate guidelines as submitted during that audit to this response.*

### **Philadelphia School District**

*The district acknowledges that the charges for Vaux Roberts should not have been included in the BEAR calculation. Vaux Roberts was a new location at the time and came onto the district's network toward the end of the 2019 funding year.*

*At the time of the audit, the District did have controls in place to review the invoices to ensure only eligible services were included in the BEAR calculations. The service provider's use of the address location on the invoice made it difficult for the district to match the invoice charges to the recipient of service as listed on the district's application.*

*Subsequently, the district worked with the service provider and has now required the service provider to include names of recipients of service on the invoices. As such, the district has taken steps to enhance the controls that are in place. The district now has controls in place to ensure the situation that led to the audit finding at issue does not occur again. A current invoice for the service provider is attached to show the use of location names.*

### **Auditor Response**

Our finding with respect to the Monroe County Library System FRN 1999006627 was that the Beneficiary prepared its FY 2019 BEAR Form based on funded amounts rather than the actual amounts the Service Provider billed. We believe that this error indicates a need for the Beneficiary to assess and strengthen its controls to ensure accurate invoicing. Accordingly, our position regarding this finding has not changed.

### **Finding No. 2, 47 C.F.R § 54.523 (2018) - Untimely Payment of the Beneficiary's Non-Discounted Share to the Service Provider<sup>2</sup>**

#### **Condition**

One Beneficiary did not consistently pay the non-discounted share of the Service Provider's bills in a timely manner. FCC Rules require Beneficiaries to remit payment within 90 days of receiving services. The Beneficiary, Buffalo City School District, chose the BEAR method of reimbursement for FRN 1999041600. Under the BEAR method, the service provider bills the beneficiary for the entire cost of services, and then the beneficiary invoices USAC for its discount share. We tested the Beneficiary's payment of the Service Provider's bills dated November 1, 2019 (\$2,124 for services rendered from September 6 to December 31, 2019) and May 1, 2020 (\$578 for services rendered from June 1 to June 30, 2020). We noted that the Beneficiary did not pay the November 2019 bill until December 24, 2020 and did not pay the May 2020 bill until December 17, 2021. Further, we noted that the Beneficiary submitted its BEAR Form to USAC for reimbursement of FY 2019 services on April 13, 2021, which was before it had paid the May 2020 bill.

#### **Cause**

The Beneficiary did not have sufficient controls in place to ensure that it complied with FCC Rules regarding the payment of Beneficiaries' non-discounted share of costs for eligible services. The Beneficiary attributed the late payments to a combination of two factors:

- The Service Provider consolidated multiple services on a single invoice, which caused billing and credit discrepancies.
- The Beneficiary prematurely closed a purchase order from the prior year, which misaligned the beneficiary's invoice payments.

#### **Effect**

The monetary effect of this finding is \$2,432 (\$2,702 [i.e., \$2,124 plus \$578] multiplied by the Beneficiary's 90 percent discount rate). Because the Beneficiary ultimately paid for the funded services, we are not recommending recovery of USAC funds. However, we noted that the

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<sup>2</sup> See also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd. 15808, 15816, at para. 24 (2004), and FCC Form 472, *BEAR Form*, at Block 3.

Beneficiary did not make the payments within the 90-day period that FCC has deemed reasonable and did not pay its May 2020 bill before it invoiced USAC.

Support Type	Monetary Effect	Recommended Recovery
Internet Access FRN 1999041600	<u>\$2,432</u>	<u>\$0</u>
<b>Total</b>	<b><u>\$2,432</u></b>	<b><u>\$0</u></b>

**Recommendation**

We recommend that Buffalo City School District establish and implement internal control policies and procedures to ensure that it 1) pays service providers within 90 days after completion of service, and 2) does not submit BEAR Forms until after it has paid the Service Providers’ bills.

**Beneficiary Response**

The Beneficiary declined to respond to this finding.

**Criteria**

Finding	Criteria	Description
1, 2	FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3	<p><i>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:</i></p> <ul style="list-style-type: none"> <li><i>A. The discount amounts listed in this Billed Entity Applicant Reimbursement Form represent charges for eligible services and/or equipment delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.</i></li> <li><i>B. The discount amounts listed in this Billed Entity Applicant Reimbursement Form were already billed by the Service Provider and paid for by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities.</i></li> <li><i>C. The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by the Fund Administrator pursuant to a Funding Commitment Decision Letter (FCDL).</i></li> </ul>

Finding	Criteria	Description
1	47 C.F.R § 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>
2	47 C.F.R § 54.523 (2018)	<i>Payment for the non-discount portion of supported services. An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.</i>
2	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd. 15808, 15816, at para. 24 (2004)</i>	<i>...Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the FCC’s] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services... Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the] rule that the beneficiary must pay its share.</i>

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC



Megan P. Mesko, CPA, CFE  
 Partner  
 Alexandria, VA

**Attachment D**

**SL2021LR019**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**PERFORMANCE AUDIT**

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**CLARK COUNTY SCHOOL DISTRICT**

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

**USAC AUDIT No. SL2021LR019**

**Cotton**

A  **SIKICH**. COMPANY

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

## **Executive Summary**

**August 16, 2023**

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division  
Universal Service Administrative Company  
700 12<sup>th</sup> 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 Clark County School District (Beneficiary), Billed Entity Number (BEN) 143411, 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, pursuant to 47 C.F.R. Section 54.516 (c).

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select Service Providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with FCC Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed two detailed audit findings, discussed in the Audit Results and Recovery Action section below. For the purpose of this

report, a “finding” is a condition that shows evidence of non-compliance with 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 that the Beneficiary did not comply with FCC Rules, as provided in the two detailed audit findings discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<p><b>Finding No. 1, 47 C.F.R. § 54.507(d)(4) (2018) – E-Rate Funded Equipment Not Installed by Required Deadline.</b> The Beneficiary did not install E-Rate equipment funded under Funding Request Number (FRN) 1999055909 by the required deadline of September 30, 2021, nor did it submit a service delivery extension request to USAC.</p>	\$2,565	\$0	\$2,565
<p><b>Finding No. 2, FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3 – Beneficiary Invoiced USAC for Ineligible Services.</b> The Beneficiary incorrectly calculated its eligible service costs when preparing its BEAR Forms for services received under FRN 1999054463.</p>	<u>\$1,467</u>	<u>\$0</u>	<u>\$1,467</u>
<b>Total Net Monetary Effect</b>	<b><u>\$4,032</u></b>	<b><u>\$0</u></b>	<b><u>\$4,032</u></b>

### USAC Management Response

USAC management concurs with the Audit Results above. See the chart below for the recovery amounts. USAC may 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. Various links are listed below:

- <https://www.usac.org/e-rate/learn/webinars/>- E-Rate Equipment Transfers (July 27, 2021)
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2021/07-27-2021-E-Rate-Equipment-Transfers-Webinar-Slides.pdf>
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2021/07-27-2021-Procedure Filing Guideline Infograph.pdf>
- <https://www.usac.org/e-rate/learn/webinars/>- E-Rate Invoice Training Webinar (February 10, 2022)
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2022/E-Rate-Invoice-Training-Webinar-2022-Slides.pdf>

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

FRN	Recovery Amount
1999055909	\$2,565
1999054463	\$1,467
<b>Total</b>	<b><u>\$4,032</u></b>

### Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Years (FYs) 2019 and 2020. The Beneficiary is a public school district located in Las Vegas, Nevada, that serves more than 300,000 students.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Beneficiary for FYs 2019 and 2020, as of September 14, 2021, the date that our audit commenced.

Service Type	FY 2019 Amount Committed	FY 2019 Amount Disbursed	FY 2020 Amount Committed	FY 2020 Amount Disbursed
Internal Connections	\$4,254,745	\$875,344	\$1,121,274	\$0
Internet Access	\$2,456,874	\$2,450,409	\$3,490,887	\$0
<b>Total</b>	<b><u>\$6,711,619</u></b>	<b><u>\$3,325,753</u></b>	<b><u>\$4,612,161</u></b>	<b><u>\$0</u></b>

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

represent \$3,300,625 of the funds committed and \$2,985,613 of the funds disbursed during the audit period.

The FY 2020 “amount committed” total represents seven FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for FY 2020 that resulted in seven Funding Request Numbers (FRNs). We selected a sample of three FRNs, which represent \$1,465,152 of the funds committed. There were no USAC funds disbursed for FY 2020 during the audit period.

Using this sample, we performed the audit procedures enumerated below.

**A. Application Process**

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

**B. Competitive Bid Process**

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

**C. Invoicing Process**

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 472, *BEAR Forms*, 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. Virtual Site Visit**

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

**E. Reimbursement Process**

We obtained and examined equipment and service invoices that the Beneficiary submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed bills associated with the BEAR Forms for equipment and services provided to the Beneficiary. We 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 were eligible in accordance with the E-Rate program Eligible Services List.

**Detailed Audit Findings**

**Finding No. 1, 47 C.F.R. § 54.507(d)(4) (2018) – E-Rate Funded Equipment Not Installed by Required Deadline<sup>1</sup>**

**Condition**

The Beneficiary did not install E-Rate equipment funded under FRN 1999055909 by the required deadline of September 30, 2021, for non-recurring services, nor did it submit a service delivery extension request to USAC. We reconciled the Beneficiary’s fixed asset listing to the Service Provider’s bills and noted that the Beneficiary had not installed eight of the access points billed. The Beneficiary included the cost of these uninstalled access points in its BEAR Forms. We calculated the invoiced costs for the uninstalled equipment as follows:

Equipment	Quantity	Unit Cost	Less Ineligible Cost per Unit*	Eligible Cost per Unit	Total Costs
AP 2802i Access Point	1	\$413	\$6	\$407	\$407
AP 2802i Access Point	1	\$387	\$5	\$382	\$382
AP 2802i Access Point	1	\$413	\$6	\$407	\$407
AP 2802i Access Point	3	\$413	\$6	\$407	\$1,221
AP 2802i Access Point	1	\$387	\$5	\$382	\$382
AP 2802i Access Point	1	\$413	\$6	\$407	\$407
<b>Total</b>					<b><u>\$3,206</u></b>

*\*The Beneficiary removed costs that were allocable to ineligible pre-kindergarten facilities, estimated at 1.391 percent of the total costs.*

**Cause**

The Beneficiary did not install the access points because it inadvertently ordered the incorrect equipment. Specifically, the Beneficiary ordered Air-AP 2802i access points when it needed Air-AP 2802e access points.

<sup>1</sup>See also *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, 35 FCC Rcd 2978, 2980 at para. 6 (WCB April 1, 2020) (extending the non-recurring service delivery deadline by one year for all Funding Year 2019 E-Rate applicants)

### Effect

The Beneficiary has not made effective use of \$3,206 in equipment. As a result, the monetary effect for this finding is \$2,565 (\$3,206 multiplied by the Beneficiary's 80 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Internal Connections FRN 1999055909	\$2,565	\$2,565

### Recommendations

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement controls to ensure it only invoices the E-Rate program for equipment that the Beneficiary has installed. If the Beneficiary cannot install the equipment by the non-recurring service delivery deadline for the applicable Funding Year, we recommend that the Beneficiary request a service delivery extension from the E-Rate program.

### Beneficiary Response

*We concur with the finding. We will implement controls to request a service delivery extension if the equipment cannot be installed by the service delivery date.*

### **Finding No. 2, FCC Form 472, BEAR Form at Block 3 – Beneficiary Invoiced USAC for Ineligible Services**

#### Condition

The Beneficiary incorrectly calculated its eligible service costs when preparing its BEAR Forms for services received under FRN 1999054463. Specifically, the Beneficiary inadvertently omitted \$1,240 in credits related to two eligible school locations and included \$620 in costs incurred for services to a non-instructional facility (i.e., an ineligible location) that the Beneficiary did not include in its FCC Form 471 funding request. As a result of these errors, the Beneficiary overstated its invoiced costs by \$1,834, as follows:

Description	Amount Billed	Less Ineligible Costs*	Overstated Invoiced Costs
Credits Not Applied	\$1,240	\$17	\$1,223
Ineligible Location	\$620	\$9	\$611
<b>Total</b>	<b><u>\$1,860</u></b>	<b><u>\$26</u></b>	<b><u>\$1,834</u></b>

*\*The Beneficiary removed costs that were allocable to ineligible pre-kindergarten facilities, estimated at 1.391 percent of the total costs.*

#### Cause

The Beneficiary did not have adequate controls in place to ensure the accuracy of amounts invoiced to USAC.

**Effect**

The monetary effect for this finding is \$1,467 (\$1,834 multiplied by the Beneficiary’s 80 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Internet Access FRN 1999054463	\$1,467	\$1,467

**Recommendations**

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement controls to ensure that its BEAR Forms are accurate before invoicing the E-Rate program.

**Beneficiary Response**

*We concur with the finding. As of August 2021, we have implemented controls to ensure our BEAR forms are accurate.*

**Criteria**

Finding	Criteria	Description
1	47 C.F.R. § 54.507(d) (4) (2018)	<i>(4) The deadline for implementation of all non-recurring services will be September 30 following the close of the funding year.</i>
1	<i>In the Matter of Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Order, 35 FCC Rcd 2978, 2980, DA 20-364 at para. 6 (WCB April 1, 2020).</i>	<i>First, we waive the service delivery deadline for non-recurring services for all funding year 2019 applicants, as well as for applicants 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>

Finding	Criteria	Description
2	FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3	<p><i>(A) 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: The discount amounts listed in this Billed Entity Applicant Reimbursement Form represent charges for eligible services and/or equipment delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.</i></p> <p><i>(B) The discount amounts listed in this Billed Entity Applicant Reimbursement Form were already billed by the Service Provider and paid for by the Billed Entity Applicant on behalf of eligible schools, libraries, and consortia of those entities.</i></p> <p><i>(C) The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by the Fund Administrator pursuant to a Funding Commitment Decision Letter (FCDL).</i></p>

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC



Megan P. Mesko, CPA, CFE  
 Partner  
 Alexandria, VA

**Attachment E**

**SL2021LR026**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**PERFORMANCE AUDIT**

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**NEW YORK CITY DEPARTMENT OF EDUCATION**

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

**USAC AUDIT No. SL2021LR026**

**Cotton**

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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
NEW YORK CITY DEPARTMENT OF EDUCATION  
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND  
E-RATE SUPPORT MECHANISM RULES**

## **Executive Summary**

**August 16, 2023**

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division  
Universal Service Administrative Company  
700 12<sup>th</sup> 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 New York City Department of Education (Beneficiary), Billed Entity Number (BEN) 153135, 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, pursuant to 47 C.F.R. Section 54.516 (c).

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, and 2) data used to calculate the discount percentage and the type and amount of services received. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with FCC Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding, discussed in the Audit Results and Recovery Action section below. For the purpose of this report, a “finding” is a condition that shows evidence of non-compliance with 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 that the Beneficiary did not comply with FCC Rules, as provided in the one detailed audit finding discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<b>Finding No. 1, 47 C.F.R. § 54.523 (2018) – Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider.</b> The Beneficiary did not consistently pay the non-discounted share of its Service Providers’ invoices in a timely manner.	<u>\$1,535,098</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Net Monetary Effect</b>	<b><u>\$1,535,098</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

### USAC Management Response

USAC Management agrees with the Audit Results above. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified. USAC also refers the Beneficiary to our website for additional resources. The links are listed below:

- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>
- <https://docs.fcc.gov/public/attachments/FCC-04-190A1.pdf> (please see paragraph 24, page 9)
- <https://www.usac.org/e-rate/learn/webinars/> (“E-Rate Invoice Training Webinar”, February 10, 2022)
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2022/E-Rate-Invoice-Training-Webinar-2022-Slides.pdf>

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, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Year (FY) 2019. The Beneficiary is a public school district located in New York City, New York, that serves more than 960,000 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2019 as of September 21, 2021, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$19,190,658	\$12,769,256
Internal Connections (IC)	\$14,600,923	\$0
Basic Maintenance of IC	\$1,269,579	\$0
<b>Total</b>	<b><u>\$35,061,160</u></b>	<b><u>\$12,769,256</u></b>

The “amount committed” total represents four FCC Form 471, *Description of Services Ordered and Certification*, applications submitted by the Beneficiary for FY 2019 that resulted in 17 Funding Request Numbers (FRNs). We selected a sample of seven FRNs, which represent \$34,060,187 of the funds committed and \$12,707,204 of the funds disbursed during the audit. 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 to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

### B. Competitive Bid Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) primarily considered the price of the eligible services in selecting the Service Provider. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC’s website before signing contracts with the selected Service Providers.

### C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the services identified on the FCC Form 472, *Billed Entity Applicant Reimbursement (BEAR) Forms*, 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 service invoices that the Beneficiary submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary had properly invoiced USAC. Specifically, we reviewed invoices associated with the BEAR Forms for services provided to the Beneficiary. We verified that the services identified on the BEAR Forms and corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider agreements and were eligible in accordance with the E-Rate program Eligible Services List.

**Detailed Audit Finding**

**Finding No. 1, 47 C.F.R. § 54.523 (2018)– Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider<sup>1</sup>**

**Condition**

The Beneficiary did not consistently pay the non-discounted share of its Service Providers’ invoices in a timely manner. FCC Rules require beneficiaries to remit payment within 90 days after delivery or completion of the services. Specifically:

- **FRNs 1999014672, 1999014750, and 1999014970.** The Service Provider for these FRNs, Crown Castle,<sup>2</sup> billed the Beneficiary monthly for recurring services. However, the Beneficiary did not pay one of the invoices in a timely manner, as shown below:

End of Billing Period	Check Date	Days Between End of Billing Period and Check Date	Amount
February 29, 2020	June 23, 2020	115	\$1,367,066
<b>Total</b>			<b><u>\$1,367,066</u></b>

<sup>1</sup> See 47 C.F.R. § 54.523; see also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Red. 15808, 15816, at para. 24 (2004) (finding “that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the FCC’s] rule that the beneficiary must pay its share.”).

<sup>2</sup> Services were provided by Lighttower Fiber Networks II, LLC doing business as [dba] Crown Castle International Corporation (Crown Castle). The Beneficiary received Service Provider bills from Crown Castle.

- **FRN 1999015085.** The Service Provider for this FRN, Zayo Group, LLC, billed the Beneficiary monthly for recurring services. However, the Beneficiary did not pay three of the invoices in a timely manner, as shown below:

End of Billing Period	Check Date	Days Between End of Billing Period and Check Date	Amount
April 30, 2020	January 9, 2021	254	\$33,946
May 31, 2020	December 22, 2020	205	\$67,043
June 30, 2020	December 22, 2020	175	<u>\$67,043</u>
<b>Total</b>			<b><u>\$168,032</u></b>

**Cause**

The Beneficiary did not have internal controls in place to ensure that it complied with FCC Rules regarding the payment of its non-discounted share of costs for eligible services. Further, the Beneficiary stated that it required additional time to obtain and validate the Service Provider bills and that it had experienced disruptions related to Coronavirus Disease 2019 (COVID-19) in 2020.

**Effect**

The monetary effect of this finding is \$1,535,098. As the Beneficiary ultimately paid the non-discounted share of the funded services, we are not recommending recovery for this finding.

Service Provider	Support Type	Monetary Effect	Recovery Action
Crown Castle	Internet Access	\$1,367,066	\$0
Zayo Group, LLC	Internet Access	<u>\$168,032</u>	<u>\$0</u>
<b>Total</b>		<b><u>\$1,535,098</u></b>	<b><u>\$0</u></b>

**Recommendation**

We recommend that the Beneficiary establish and implement internal control policies and procedures to ensure that it pays its Service Providers within 90 days after completion of service.

**Beneficiary Response**

*We want to clarify some of the findings in the report. First, the "Bill Date" on the invoices, for both service providers mentioned in this audit report, is for the upcoming month of service. Therefore, the last day of the month is the date the service was completed. This means that the majority of the NYC DOE's payments mentioned in this audit report were paid within 90 days of service, as contemplated by FCC rules.<sup>3</sup> The NYC DOE Procurement Policy contemplates that invoices should be paid within thirty days of receipt of an invoice and all applicable supporting*

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<sup>3</sup> For FRNs 1999014672, 1999014750, and 1999014970, payments for invoices with the following bill dates: September 1, 2019, October 1, 2019, March 1, 2019, May 1, 2020, and June 1, 2020, were paid within 90 days of service. For FRN 1999015085, payment for the invoice with bill date of July 1, 2019 was paid within 90 days of service.

*documentation or acceptance of goods or services delivered, whichever is later. The policy also provides that factors that may prevent payment within thirty days include when the invoice does not contain all of the information required by the NYC DOE, supporting documentation is incomplete or does not meet the requirements of the contract/purchase order, or when verification that the services delivered met the requirements of the contract/purchase order take additional time. The instances highlighted in this audit, where payments were actually made beyond 90 days, were due to documentation not meeting the requirements of the contract and/or verification taking additional time.*

*For FRNs 1999014672, 1999014750, and 1999014970, during the time period audited, the NYC DOE transitioned from another service provider to Crown Castle. This required the program team to ensure the schools that appeared on the invoices correctly switched over to Crown Castle during the billing period. Then the Finance and Budget Operations office had to review the invoices to ensure the pricing was consistent with the contract and the actual conversion of each school to Crown Castle. These additional steps required further question and answer sessions with the vendor prior to payment.*

*For FRN 1999015085, the service provider, Zayo, increased speeds without NYC DOE approval, and the NYC DOE disputed the invoices. This led to several conversations between the NYC DOE and Zayo to clarify the contracted pricing. In addition, Zayo experienced staff turnover during this time, which further delayed correction of the invoices. After several meetings with Zayo, the invoices were accurately corrected.*

*Finally, payments made after March 2020 were further delayed due to disruptions related to the COVID-19 pandemic.*

*The NYC DOE will update our E-rate Invoicing Guidelines to highlight that E-rate program rules contemplate that payments of the NYC DOE share of an invoice for an E-rate eligible service or good will be made to providers within 90 days of service or 90 days of receipt of an invoice, whichever is later. Because invoices can be received after service has been provided, it is necessary to include this as an alternative timeline for payment.*

### **Auditor Response**

Based on the Beneficiary's response and an additional review of Crown Castle's billing process, we removed exceptions previously reported where the Beneficiary was able to support it paid its non-discounted share within 90 days after delivery or completion of the services consistent with FCC rules.<sup>4</sup> However, our position is unchanged for the remaining exceptions included in the finding.

Beneficiaries that fail to pay the non-discounted share within 90 days after delivery or completion of the services are in violation of FCC rules. Although NYCDOE confirmed it will change its guidelines to ensure it make payments "to providers within 90 days of service or 90 days of receipt of an invoice, whichever is later", because FCC rules require that Beneficiaries

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<sup>4</sup>See *Fifth Report and Order*, para. 24.

make payments within 90 days after the delivery or completion of the services NYCDOE’s proposed corrective actions could result in future non-compliance with FCC rules. Accordingly, we have not updated our recommendation for this finding.

**Criteria**

Finding	Criteria	Description
1	47 C.F.R. §54.523 (2018)	<i>An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd. 15808, 15816 para. 24 (2004)</i>	<i>...Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the FCC’s] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services.... Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the] rule that the beneficiary must pay its share.</i>

COTTON & COMPANY ASSURANCE AND ADVISORY LLC



Megan P. Mesko, CPA, CFE  
 Partner  
 Alexandria, VA

**Attachment F**

**SL2022LR025**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**PERFORMANCE AUDIT**

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**SALINAS UNION HIGH SCHOOL DISTRICT**

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

**USAC AUDIT No. SL2022LR025**

**Cotton**

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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
SALINAS UNION HIGH SCHOOL DISTRICT  
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND  
E-RATE SUPPORT MECHANISM RULES**

## **Executive Summary**

August 4, 2023

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division  
Universal Service Administrative Company  
700 12<sup>th</sup> 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 Salinas Union High School District (Beneficiary), Billed Entity Number (BEN) 144082, 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, pursuant to 47 C.F.R. Section 54.516 (c).

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with relevant FCC Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding, discussed in the Audit Results and Recovery Action section below. For the purpose of this

report, a “finding” is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period.

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

### Audit Results and Recovery Action

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

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<b>Finding No. 1, 47 C.F.R. § 54.523 (2019) – Untimely Payment of Beneficiary’s Non-Discounted Share to Service Provider.</b> The Beneficiary did not consistently pay its non-discounted share for services in a timely manner.	<u>\$527</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Net Monetary Effect</b>	<u>\$527</u>	<u>\$0</u>	<u>\$0</u>

### USAC Management Response

USAC management concurs with the Audit Results stated above. USAC may conduct expanded reviews on funding requests and applications to ensure compliance with E-Rate program rules. These expanded reviews may result in additional recoveries and/or commitment adjustments that were not related to the original scope of this audit.

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

- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>
- <https://www.usac.org/wp-content/uploads/about/documents/fcc-orders/1997-fcc-orders/FCC-97-157.pdf> (please see paragraph 493, pages 260-261)
- <https://docs.fcc.gov/public/attachments/FCC-04-190A1.pdf> (please see paragraph 24, page 9)

USAC records show the Beneficiary is currently subscribed to the 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.

**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 Salinas, California, that serves more than 16,000 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2020 as of July 5, 2022, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$627,812	\$574,075
Internal Connections	\$1,257,197	\$1,198,460
<b>Total</b>	<b>\$1,885,009</b>	<b>\$1,772,535</b>

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 14 approved Funding Request Numbers (FRNs). We selected a sample of four FRNs, which represents \$1,134,611 of the funds committed and \$1,084,066 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. Virtual Site Visit**

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

**E. Reimbursement Process**

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

**Detailed Audit Findings**

**Finding No. 1, 47 C.F.R. § 54.523 (2019) – Untimely Payment of Beneficiary’s Non-Discounted Share to Service Provider**

**Condition**

The Beneficiary did not consistently pay its non-discounted share for services received under FRN 2099036528 in a timely manner. We reviewed the Service Provider bills and the Beneficiary’s check payments and noted one instance in which the Beneficiary did not pay the Service Provider’s bill within 90 days of receiving the services, as required by FCC Rules.<sup>1</sup> Specifically, we noted the following untimely payment:

FRN	Invoice Date	Payment Date	Days Between	Amount
2099036528	3/12/2021	10/27/2022	425	\$527

<sup>1</sup> See also, *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd 15808, 15816, para. 24 (2004).

**Cause**

The Beneficiary did not have adequate controls and procedures in place to ensure that it paid Service Provider bills in a timely manner. The Beneficiary stated it had erroneously marked the invoice as paid and therefore did not pay its non-discounted share of the invoice within the required 90-day threshold.

**Effect**

There is no recommended USAC recovery for this finding, as the Beneficiary has paid its non-discounted share for the services. However, by not making payments in a timely manner, the Beneficiary is at an increased risk of failing to pay its non-discounted share.

Support Type	Monetary Effect	Recovery Action
Internal Connections FRN 2099036528	<u>\$527</u>	<u>\$0</u>
<b>Total</b>	<b><u>\$527</u></b>	<b><u>\$0</u></b>

**Recommendation**

We recommend that the Beneficiary implement additional controls and procedures to ensure that it pays its non-discounted share of invoiced equipment and/or services in a timely manner (i.e., within 90 days of receiving the equipment and/or service), in compliance with FCC Rules.

**Beneficiary Response**

*Salinas Union High School District (Beneficiary) provided its Internal Controls document as part of the Beneficiary Initial Documentation Request List, Request #17 during this audit. The document describes the controls and procedures which the Beneficiary currently has in place and were in place at the time of this oversight. We feel the internal controls in place are sufficient and that this late payment was the result of a closing error on the part of the vendor, CDWG and a one-time occurrence.*

*This invoice was part of a list of invoices that were being reviewed at the end of the year because the Beneficiary was being over invoiced. The Beneficiary had a meeting with CDWG representatives to verify invoice amounts, sort out overpayments, and pay any outstanding invoices. The Beneficiary tried confirming with CDWG that these items were delivered to correct location [sic] before sending payment but did not receive a follow-up response. The Beneficiary tried confirming with CDWG that the invoice was paid and was not outstanding. As such, we feel this lapse was the result of a closing error on CDWG's part.*

*Once this error was discovered, the Beneficiary processed payment to CDWG immediately. Unfortunately, the payment was processed beyond the required 90-day threshold.*

**Auditor Response**

It is the Beneficiary’s responsibility to ensure that it pays all Service Provider bills in a timely manner. Therefore, our position regarding the finding is unchanged.

**Criteria**

Finding	Criteria	Description
1	47 C.F.R. § 54.523 (2019)	<i>An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.</i>
1	<i>Schools And Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd. 15808, 15816 at para. 24 (2004)</i>	<i>...Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the FCC's] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services... Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the] rule that the beneficiary must pay its share.</i>

Cotton & Company Assurance and Advisory, LLC



Megan P. Mesko, CPA, CFE  
Partner

Summary of the Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: September 2023.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action**	Commitment Adjustment	Entity Disagreement
Duval County School District  <b>Attachment G</b>	6	<ul style="list-style-type: none"> <li>No significant findings.</li> </ul>	\$11,308,827	\$128,439	\$79,177	\$0	Partial
Presidio Networked Solutions, LLC  <b>Attachment H</b>	2	<ul style="list-style-type: none"> <li>No significant findings.</li> </ul>	\$3,402,791	\$12,164	\$0	\$0	N
State of Delaware  <b>Attachment I</b>	1	<ul style="list-style-type: none"> <li>No significant findings.</li> </ul>	\$4,180,192	\$300	\$300	\$0	N
<b>Total</b>	<b>17</b>		<b>\$18,990,326</b>	<b>\$312,599</b>	<b>\$144,291</b>	<b>\$117,018</b>	

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

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

**Attachment G**

**SL2021LR029**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**PERFORMANCE AUDIT**

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**DUVAL COUNTY SCHOOL DISTRICT**

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

**USAC AUDIT No. SL2021LR029**

**Cotton**

A SIKICH COMPANY

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

**Executive Summary**

**September 5, 2023**

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division  
Universal Service Administrative Company  
700 12<sup>th</sup> 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 Duval County School District<sup>1</sup> (Beneficiary), Billed Entity Number (BEN) 127591, 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, pursuant to 47 C.F.R. Section 54.516 (c).

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select service providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with FCC Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed six detailed audit findings discussed in the Audit Results and Recovery Action section below. For the purpose of this

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<sup>1</sup>Duval County School District is also known as Duval County Public Schools.

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 that the Beneficiary did not comply with FCC Rules, as set forth in the six detailed audit findings discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<p><b>Finding No. 1, 47 C.F.R § 54.504(d)(1) (2018) – Beneficiary Did Not Receive an Approved Service Substitution.</b> The Beneficiary did not submit a service substitution request form to USAC before purchasing equipment that was not included in the FCC Form 471.</p>	\$53,573	\$0	\$53,573
<p><b>Finding No. 2, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2; FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced USAC for Amounts Not Reconciled to Its Bills.</b> The Service Provider over-invoiced the E-Rate program for equipment funded under FRN 1999056917.</p>	\$16,138	\$0	\$0
<p><b>Finding No. 3, FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3 – Beneficiary Invoiced USAC for Services and Locations Not Requested – Beneficiary Invoiced USAC for Equipment Installed in an Ineligible Facility.</b> The Beneficiary invoiced the E-Rate program for costs related to services and locations that the Beneficiary did not request on its FCC Form 471.</p>	\$25,604	\$0	\$25,604

<b>Audit Results</b>	<b>Monetary Effect</b>	<b>Overlapping Recovery</b>	<b>Recommended Recovery</b>
<b>Finding No. 4, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2; FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced USAC for Charges Exceeding the Prices Approved for Funding and Contained in the Service Provider’s Contract.</b> The Service Provider invoiced the E-Rate program at unit prices that were higher than the prices identified in the approved FCC Form 471 and in the Service Provider’s contract with the Beneficiary.	\$28,130	\$0	\$0
<b>Finding No. 5, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2; FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced USAC for Equipment Not Requested by the Beneficiary.</b> The Service Provider invoiced the E-Rate program for equipment that the Beneficiary did not request on its FCC Form 471.	\$1,661	\$0	\$0
<b>Finding No. 6, 47 C.F.R § 54.523 (2018) – Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider.</b> The Beneficiary did not consistently pay the non-discounted share of the Service Provider’s invoices in a timely manner.	<u>\$3,333</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Net Monetary Effect</b>	<b><u>\$128,439</u></b>	<b><u>\$0</u></b>	<b><u>\$79,177</u></b>

### USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amounts. USAC will request the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Beneficiary and Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/applicant-process/before-youre-done/service-substitutions/>
- <https://www.usac.org/e-rate/learn/webinars/> (please see “E-Rate Post-Commitment Process” from November 18, 2021, Timestamp 23:26 to 25:30)
- <https://www.usac.org/e-rate/learn/webinars/> (please see “E-Rate Invoice Training Webinar” from February 10, 2022, Timestamp 8:08 to 1:02:40)
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>
- <https://docs.fcc.gov/public/attachments/FCC-04-190A1.pdf> (please see paragraph 24, page 9)

FRN	Recovery Amount
1999055182	\$53,573
1999065245	\$25,604
<b>Total</b>	<b>\$79,177</b>

USAC records show the Beneficiary and Service Provider are currently subscribed to the E-Rate 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.

**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) 2019. The Beneficiary is a school district located in Jacksonville, Florida that serves more than 129,000 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2019 as of July 12, 2021, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$10,789,365	\$10,286,847
Internet Access	\$1,032,912	\$1,021,980
<b>Total</b>	<b>\$11,822,277</b>	<b>\$11,308,827</b>

The “amount committed” total represents two FCC Form 471, *Description of Services Ordered and Certification*, applications submitted by the Beneficiary for FY 2019 that resulted in 159 Funding Request Numbers (FRNs). We selected a sample of eight FRNs, which represent \$2,317,744 of the funds committed and \$2,144,618 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 services and goods in selecting the Service Provider. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected Service Providers.

**C. Invoicing Process**

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 472, *Billed Entity Applicant Reimbursement (BEAR)* Forms; FCC Form 474, *Service Provider Invoice (SPI)* Forms; 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. Virtual Site Visit**

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

**E. Reimbursement Process**

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

## Detailed Audit Findings

### **Finding No. 1, 47 C.F.R § 54.504(d)(1) (2018) – Beneficiary Did Not Receive an Approved Service Substitution**

#### **Condition**

The Beneficiary did not submit a service substitution request form to USAC before purchasing equipment that was not included in the FCC Form 471. Specifically, the Beneficiary purchased, and its Service Provider invoiced USAC for, \$63,027 in unapproved equipment under FRN 1999055182, as follows:

Model #	Description	Unit Cost	Quantity	Total
10506-EXT	Adapter	\$196.50	34	\$6,681
10304	Cable Assembly	\$38.70	18	\$697
10301	10 Gigabit Module	\$383.70	46	\$17,650
AA1404005-E6	Transceiver	\$1,025.70	30	\$30,771
10414	Copper Cable	\$256.80	18	\$4,622
AA1404030-E6	Copper Cable	\$152.70	12	\$1,832
AA1403022-E6	Direct Attach Cable	\$193.60	4	\$774
<b>Total</b>				<b><u>\$63,027</u></b>

#### **Cause**

The Beneficiary requested funding to purchase equipment for a new data center. However, the design for the data center changed after the Beneficiary submitted the FCC Form 471, and the Beneficiary's equipment needed to be changed as a result. The Beneficiary did not have policies and procedures in place to ensure that it requested and obtained USAC's approval for the substituted equipment.

#### **Effect**

The monetary effect of this finding is \$53,573 (\$63,027 multiplied by the Beneficiary's 85 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Internal Connections FRN 1999055182	\$53,573	\$53,573

#### **Recommendations**

We recommend that:

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

2. The Beneficiary implement controls to ensure that it submits service substitution request forms when it determines that it will need to procure services or equipment that differs from those included in the approved funding requests.

**Beneficiary Response**

*The items listed below identifies those items Cotton & Co believes to be discrepancies between our RFP Price list and the Data Center Asset Listing as provided by Mr. Stephen McLaughlin.*

Model #	Description	Unit Cost	Quantity	Total	Comments
10506-EXT	Adapter	\$196.50	34	\$6,681	4.20: per SM, item is NOT on RFP.
10304	Cable Assembly	\$38.70	18	\$697	4.20: per SM, item is NOT on RFP.
10301	10 Gigabit Module	\$383.70	46	\$17,650	4.20: per SM, item is NOT on RFP.
AA1404005-E6	Transceiver	\$1,025.70	30	\$30,771	4.20: per SM, NOT on RFP.
10414	Copper Cable	\$256.80	18	\$4,622	4.20: per SM, NOT on RFP.
EC8011022-E6	Slide Rack Mount Kit	\$212.00	2	\$424	FRN# 1999055182.006 - found in the RFP (Item 15) and Step's RFP response pricing page
EC7200A2F-E6	VSP 7254XTQ	\$19,643.52	2	\$39,287	1. See Extreme (Approved) Global Serv. Sub. dated 2/2019 explaining that EC7200E2F-E6 would now be: EC7200A2F-E6 2. See Extreme End of Service Notification published 1/2021 explains Notification for VSP 7254XSQ Series of switches approaching end of life. 3. See Extreme (approved) Global Service sub dated 8/21 for detail that VSP 7254 XTQ service sub was approved to VSP7400-48Y-8C-AC-F
EC7200A2F-E6	VSP 7254XTQ	\$19,638.32	2	\$39,277	1. See Extreme (Approved) Global Serv. Sub. dated 2/2019 explaining that EC7200E2F-E6 would now be: EC7200A2F-E6 2. See Extreme End of Service Notification published 1/2021 explains Notification for VSP 7254XSQ Series of switches approaching end of life. 3. See Extreme (approved) Global Service sub dated 8/21 for detail that VSP 7254 XTQ service sub was approved to VSP7400-48Y-8C-AC-F
EC8400A02-E6	8404C Chassis	\$11,729.94	2	\$23,460	RFP Line item 22. A is industry SKU and E is ' E-Rate' SKU
EC8005A01-E6	VSP 8000	\$340.40	2	\$681	RFP line item 29. A is industry SKU and E is ' E-Rate' SKU
AA1404030-E6	Copper Cable	\$152.70	12	\$1,832	4.20: per SM, NOT on RFP.
AA1403022-E6	Direct Attach Cable	\$193.60	4	\$774	4.20: per SM, NOT on RFP.
<b>Total</b>				<b>\$166,156</b>	

*DCPS is certainly familiar with this list since Mr. Stephen McLaughlin, DCPS Network Supervisor has provided detailed responses to Cotton & Co. questions over the past months. This set of responses has led to the following Cotton & Co. conclusion:*

**Cause**

*The Beneficiary requested funding to purchase equipment for a new data center. However, the design for the data center changed after the Beneficiary submitted the FCC Form 471, and the Beneficiary's equipment needed to be changed as a result. The Beneficiary did not have policies and procedures in place to ensure that it requested and obtained USAC's approval for the substituted equipment.*

*The District acknowledges that in the confusion of a Data Center reconfiguration a limited quantity of items may have been erroneously included in the Purchase orders for FRN*

1999055182. Those items DCPS ordered in error appear 'unshaded' in the chart above but we believe a greater number of the items on the above list should not be considered 'discrepancies' as those items are either included in the District's Request for Proposal # 06-19 LM Network Electronics Bid Proposal Section **OR** they were items that were part of a Global Service Substitution (filed by Extreme). For instance:

Shaded in blue:

**EC8011022-E6 (Slide Rack Mount Kit)** - this item (FRN# 1999055182.006) can be found in both our FCC Form 471 191039774 and our Request for Proposal #06-19 LM Network Electronics. Specifically it can be found here: **RFP#06-19 LM Network Electronics-Final-012319.pdf**, Attachment B, Cost Proposal Form, pgs.28-38 of 52, Line Item #15.

**EC8400A02-E6 (8404 Chassis)** – this item can also be found in both our FCC Form 191039774 and our Request for Proposal #06-19 LM Network Electronics. Specifically it can be found here: **RFP#06-19 LM Network Electronics-Final-012319.pdf**, Attachment B, Cost Proposal Form, pgs.28-38 of 52, Line Item #22.

**EC8005A01-E6 (VSP 8000)** -this item can also be found in both our FCC Form 191039774 and our Request for Proposal #06-19 LM Network Electronics. Specifically it can be found here: **RFP#06-19 LM Network Electronics-Final-012319.pdf**, Attachment B, Cost Proposal Form, pgs.28-38 of 52, Line Item #29.

Shaded in green:

The remaining 2 items in the chart above are items with revised SKUs that Extreme brought to USAC's attention back in February of 2019 (Extreme Networks Global Service Substitution CSC#242660.pdf, pg. 7/8). For items **EC7200A2F-E6** and **EC700A2F-E6** please see the following documents that were either produced by Extreme and/or came about as a result of that manufacturer's submission(s) to USAC:

- **Extreme Networks Global Service Substitution CSC#242660.pdf**. pg 7/8.



Extreme Networks  
Global Service Subst

- **eos-notification-for-vsp-7254xsq.pdf**, pgs. 1-2/4. (Extreme End of Sale Notification for VSP 7254 XTQ)



eos-notification-for  
-vsp-7254xsq.pdf

- **Approved Global Service Sub Aug 4 2021 VSP 7K.pdf**, (USAC approved Global Serv. Sub)



Approved Global  
Service Sub Aug 4 21

*As this FRN is still “active” with a service delivery deadline of 9/30/2022, the District plans to file correcting service substitutions to rectify any discrepancies by the service delivery deadline, as allowed by program procedures*

#### **Auditor Response**

We reviewed the information provided by the Beneficiary in response to this audit finding. As a result, we removed the equipment highlighted above in blue and green from Finding No. 1. We determined that USAC approved the equipment highlighted in green as part of a global service substitution in February 2019. We further noted that, while the model numbers were slightly different for two of the items, the descriptions for the equipment highlighted in blue were the same between the Form 471 and the Service Provider’s bill.

Although we removed the cost of the highlighted equipment items from this finding, we noted that the Service Provider billed several of these items at significantly higher prices than were in its contract with the Beneficiary and in the funding request. Accordingly, we increased the monetary effect of Finding No. 4 to include the price difference for these items.

#### **Finding No. 2, FCC Form 473, Service Provider Annual Certification Form (SPAC) at Block 2; FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced USAC for Amounts Not Reconciled to Its Bills<sup>2</sup>**

##### **Condition**

One of the Beneficiary’s Service Providers, Step CG, over-invoiced the E-Rate program for equipment funded under FRN 1999056917. Although the Service Provider’s final bill for the eligible equipment was \$109,143, it invoiced USAC for \$128,129 instead, thereby overstating the pre-discount price by \$18,986.

##### **Cause**

The Service Provider did not have adequate controls in place to ensure the accuracy of amounts invoiced to USAC. Specifically, the Service Provider appears to have erroneously divided the \$108,909 interim bill by the discount rate to arrive at a pre-discount price of \$128,129. However, the Service Provider should have multiplied the \$108,909 interim bill by the discount rate instead.

##### **Effect**

The Service Provider over-invoiced USAC by \$16,138 (\$18,986 multiplied by the Beneficiary’s 85 percent discount rate). Because the Service Provider already reimbursed USAC for this amount, we are not recommending recovery for this finding.

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<sup>2</sup> See also FCC Form 474 (SPI Form) at Block 3; 47 C.F.R. §§ 54.500, 54.505(a) (2018).

Support Type	Monetary Effect	Recommended Recovery
Internal Connections FRN 1999056917	\$16,138	\$0

### Recommendation

We recommend that the Service Provider implement controls to ensure that invoiced amounts are accurate.

### Service Provider Response

*Step CG recognizes that internal controls were lacking and has implemented changes in its organization, policies and procedures to ensure that these issues do not occur in the future. The specific changes are as follows:*

1. *Project Management – As of January 2021 Step CG has assigned each E-Rate project a dedicated project manager responsible for implementation according to the contract and the E-Rate 471. Prior to that, sales operations was responsible for implementation.*
2. *Change Management – Step CG has implemented ConnectWise Manage as of Oct. 2021 This IT infrastructure and customer management tool is assisting Step in managing change processes.*
3. *Invoice Management – Step CG has implemented Microsoft Dynamics Business Central. This accounting application will give Step the flexibility to manage a dual invoice process as required for Service Provider Invoicing. In addition, Step has assigned its Controller (CPA) to manage all E-Rate invoicing going forward. Controls for each invoice prior to submittal now include the following:*
  - a. *Before an order is placed, the Controller will review the purchase documents against the Form 471 to ensure alignment.*
  - b. *Once an order has been placed in the system an invoice can be generated*
  - c. *Prior to invoice creation the controller will review any contract changes/addendums and any changes to the Funding Commitment Decision Letter via post commitment changes (Service Substitutions, etc.) and FRN*
  - d. *Once validation of any changes by the project Manager and controller have been completed and confirmation of delivery of services has occurred an invoice will be created and submitted*
  - e. *Project manager will confirm that any changes that have occurred are documented in all systems*
  - f. *Controller will track invoice payment from both applicant, and USAC, if applicable.*
4. *Training – All account management personnel are required to attend two E-Rate Manufacturer trainings to be certified to work with E-Rate accounts. In addition, all personnel that are engaged in E-Rate processes are required to attend two annual 1 hour E-Rate trainings provided by KB & Associates LLC (CRN 16074062). KB & Associates has also been retained to provide ongoing consulting support to all Step CG personnel involved in all facets of E-Rate projects.*

**Finding No. 3, FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3 – Beneficiary Invoiced USAC for Services and Locations Not Requested**

**Condition**

The Beneficiary invoiced the E-Rate program for \$28,449 for services and locations that the Beneficiary did not include on its funding request form. Specifically, the Beneficiary’s BEAR Forms for the first six months of FY 2019 included charges for services to locations that the Beneficiary did not include on its FCC Form 471, as well as charges for services at rates that exceeded the rates approved for funding. The BEAR Forms also excluded some charges that were eligible for funding, resulting in net ineligible invoiced costs of \$28,449 as follows:

Location	Issue	Ineligible Costs
DCPS Nutrition	Not listed as a recipient on FCC Form 471	\$395
Admin Prudential 1	Not listed as a recipient on FCC Form 471	\$3,600
Food Service	Not listed as a recipient on FCC Form 471	\$3,150
Detention Center	Not listed as a recipient on FCC Form 471	\$4,345
Data Centers 1 and 2, Admin Team Center 1	10Gpbs service costs exceeded amounts requested on FCC Form 471	\$9,375
New District 3	Not listed as a recipient on FCC Form 471	<u>\$7,584</u>
<b>Total</b>		<b><u>\$28,449</u></b>

The Beneficiary removed most of the ineligible charges from its BEAR Forms for the last half of the funding year; however, it did not adjust its invoices to credit USAC for the amounts it had previously inappropriately invoiced.

**Cause**

The Beneficiary erroneously overlooked the ineligible service costs from the first half of the funding year when removing ineligible costs from its BEAR Forms.

**Effect**

The monetary effect for this finding is \$25,604 (\$28,449 multiplied by the Beneficiary’s 90 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Internet Access FRN 1999065245	\$25,604	\$25,604

**Recommendations**

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Beneficiary implement controls to ensure that its invoices are accurate and only include costs approved for funding.

**Beneficiary Response**

*In our FCC Form 470 # 170020428 [sic] Duval County Public Schools requested Data Transmission and/or Internet Access for a total of 190 circuits. See competitive bid materials:*

**-RPF NO. 07 19 LM WAN SERVICE DATA CONNECTIONS FINAL.pdf – (RP)**



RPF NO. 07 19 LM  
WAN SERVICE DATA

**-Addendum N0.1 final.pdf (Addendum#1)**



Addendum N0.1  
final.pdf

**-Duval470Y22C1-WAN - #190020428.pdf (Establishing FCC Form 470)**



Duval470Y22C1-WA  
N - #190020428.pdf

*In FCC Form 471 # 191036133 Duval County Public Schools formulated their FRN# 199065245[sic] in the following manner:*

FRN#	Bandwidth (MB)	Quantity	Price	Annual Cost
1999065245.001	1000	46	600.00	331,200.00
1999065245.002	500	121	525.00	762,300.00
1999065245.003	10000	3	1,505.00	54,180.00
				<b>1,147,680.00</b>

*See the following documents:*

**USAC\_FCC\_FORM\_471\_APPLICATION\_191036133\_CURRENT\_04192022\_1043.pdf - (471 filing)**



USAC\_FCC\_FORM\_4  
71\_APPLICATION\_19

**-FY2019-20\_DCPS\_Cat1\_WAN\_Item 21\_FINAL.xlsx - (Item 21)**



FY2019-20\_DCPS\_Ca  
t1\_WAN\_Item 21\_FIN

*We recognize Cotton & Co. believes the following locations do not belong in the Billed Entity Application Reimbursement (BEAR) reconciliation and therefore should not be included within the District’s BEAR reimbursement filing. Wee [sic] contend the locations are eligible locations (eligible Non-Instructional Facilities [NIFs]) that should have been added into Funding Request # 1999065245 during the original filing if not for an Administrative error at the time of filing. As*

our Establishing FCC Form 470 # 190020428 requests up to 190 circuits across 170 + locations and our FCC Form 471 # 191036133 erroneous [sic] requests 170 circuits, we believe a Post Commitment correction provides the ability to add the following eligible district circuits:

Location	Over/(Under)-Invoiced
DCPS Nutrition	\$395
Admin Prudential 1	\$3,600
Food Service	\$3,150
Detention Center	\$4,345
Admin Team Center 1	\$(8,655)
Data Center 2	\$27,060
Data Center 1	\$(9,030)
New District 3	\$7,584
<b>Total</b>	<b><u>\$28,449</u></b>

Furthermore we contend that the locations cited above are already in FCC Form 191036133 in the **Related Entity Information** section of that application – in other words the Recipients of Service section of the FCC Form 471 in question. That RoS section appears in the FCC Form 471 as appear [sic] directly below:

**Related School District NIFs**

School District BEN	School District Name	NIF BEN	NIF Name
127591	DUVAL COUNTY SCHOOL DISTRICT	16024531	DUVAL SCHOOL BOARD BUILDING
127591	DUVAL COUNTY SCHOOL DISTRICT	16024532	DCSB TEAM CENTER A
127591	DUVAL COUNTY SCHOOL DISTRICT	16024533	DCSB TEAM CENTER B
127591	DUVAL COUNTY SCHOOL DISTRICT	16024534	CONSOLIDATED SERVICE CENTER
127591	DUVAL COUNTY SCHOOL DISTRICT	16024536	TERRY PARKER ADMIN ANNEX A
127591	DUVAL COUNTY SCHOOL DISTRICT	16024537	TERRY PARKER ADMIN ANNEX B/C
127591	DUVAL COUNTY SCHOOL DISTRICT	16024538	DISTRICT TRANSPORTATION
127591	DUVAL COUNTY SCHOOL DISTRICT	16024541	DISTRICT MAINTENANCE STATION 1
127591	DUVAL COUNTY SCHOOL DISTRICT	16024542	DISTRICT MAINTENANCE STATION II
127591	DUVAL COUNTY SCHOOL DISTRICT	16024545	DISTRICT MAINTENANCE STATION VI
127591	DUVAL COUNTY SCHOOL DISTRICT	17016001	DCPS Police
127591	DUVAL COUNTY SCHOOL DISTRICT	17016002	Data Center
127591	DUVAL COUNTY SCHOOL DISTRICT	17016003	DCPS FDLRS
127591	DUVAL COUNTY SCHOOL DISTRICT	17016007	DCPS COLO @ CSX
127591	DUVAL COUNTY SCHOOL DISTRICT	17022347	Southside Skills Center
127591	DUVAL COUNTY SCHOOL DISTRICT	17022346	Eugene Butler Center

See attached:-

**USAC\_FCC\_FORM\_471\_APPLICATION\_191036133\_CURRENT\_04192022\_1043.pdf-**  
(Form 471).

**Auditor Response**

Duval asserts that the cited locations **were** included as recipients of service because they were listed in FCC Form 471 Related Entity Information section of the 471. However, the Related School District NIFs section of the Form 471 does not list recipient locations for the funded services. Furthermore, none of the non-recipient locations identified in our finding appear on the Related School District NIFs list that Duval provided. Accordingly, we added additional detail to the schedule of ineligible invoiced costs in the Condition, but otherwise made no change to our finding or recommendations.<sup>3</sup>

**Finding No. 4, FCC Form 473, Service Provider Annual Certification Form (SPAC) at Block 2; FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced USAC for Charges Exceeding the Prices Approved for Funding and Contained in the Service Provider’s Contract<sup>4</sup>**

**Condition**

One of the Beneficiary’s Service Providers, Step CG, invoiced the E-Rate program at unit prices that were higher than the prices identified in the approved FCC Form 471 and in the Service Provider’s contract with the Beneficiary. Specifically, the Beneficiary requested funding for internal connections under FRN 1999055182 at the unit prices identified in its contract with the Service Provider. However, the Service Provider invoiced for some of this equipment at unit prices that were higher than the prices identified in its FCC Form 471 and contract, causing it to overstate the pre-discount price on its SPI Forms by \$33,094, as follows:

Model #	Description	Approved Unit Price	Invoiced Unit Price	Quantity	Price Difference
AA1403019-E6	Cable	\$114.80	\$144.80	8	\$240
EC4400A05-E6	VSP 4450GSX	\$3,604.00	\$4,955.50	2	\$2,703
EC8404005-E6	Switch Module	\$6,418.00	\$9,466.50	2	\$6,097
EC8400A02-E6	8404C Chassis	\$8,772.00	\$11,729.94	2	\$5,916
EC7200A2F-E6	VSP 7254XTQ	\$15,106.40	\$19,643.52	2	\$9,074
EC7200A2F-E6	VSP 7254XTQ	\$15,106.40	\$19,638.32	2	\$9,064
<b>Total</b>					<b><u>\$33,094</u></b>

**Cause**

The Service Provider did not have controls in place to ensure that its invoices were accurate.

**Effect**

The monetary effect for this finding is \$28,130 (\$33,094 multiplied by the Beneficiary’s 85 percent discount rate). Because the Service Provider already reimbursed USAC for this amount, we are not recommending recovery for this finding.

<sup>3</sup> *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, 26 FCC Rcd 6487, para. 5 (2011) (requiring corrections to FCC Forms 471 to be submitted by applicants before a funding commitment letter is issued).

<sup>4</sup> See also 47 C.F.R §§ 54.500, 54.504(a) (2018).

Support Type	Monetary Effect	Recommended Recovery
Internal Connections FRN 1999055182	\$28,130	\$0

### Recommendation

We recommend that the Service Provider implement controls and procedures to ensure that it invoices services at the prices that are included in its contract and that USAC approved for funding.

### Service Provider Response

Step CG remitted \$7,684 to USAC on April 18, 2022 and \$20,446 on May 11, 2022. Step CG provided the remittance statements for these transactions with its response to the audit finding.

*Step CG recognizes that internal controls were lacking and has implemented changes in its organization, policies and procedures to ensure that these issues do not occur in the future. The specific changes are as follows:*

1. *Project Management – As of January 2021 Step CG has assigned each E-Rate project a dedicated project manager responsible for implementation according to the contract and the E-Rate 471. Prior to that, sales operations was responsible for implementation.*
2. *Change Management – Step CG has implemented ConnectWise Manage as of Oct. 2021 This IT infrastructure and customer management tool is assisting Step in managing change processes.*
3. *Invoice Management – Step CG has implemented Microsoft Dynamics Business Central. This accounting application will give Step the flexibility to manage a dual invoice process as required for Service Provider Invoicing. In addition, Step has assigned its Controller (CPA) to manage all E-Rate invoicing going forward. Controls for each invoice prior to submittal now include the following:*
  - a. *Before an order is placed, the Controller will review the purchase documents against the Form 471 to ensure alignment.*
  - b. *Once an order has been placed in the system an invoice can be generated*
  - c. *Prior to invoice creation the controller will review any contract changes/addendums and any changes to the Funding Commitment Decision Letter via post commitment changes (Service Substitutions, etc.) and FRN*
  - d. *Once validation of any changes by the project Manager and controller have been completed and confirmation of delivery of services has occurred an invoice will be created and submitted*
  - e. *Project manager will confirm that any changes that have occurred are documented in all systems*
  - f. *Controller will track invoice payment from both applicant, and USAC, if applicable.*
4. *Training – All account management personnel are required to attend two E-Rate Manufacturer trainings to be certified to work with E-Rate accounts. In addition, all personnel that are engaged in E-Rate processes are required to attend two annual 1 hour E-Rate trainings provided by KB & Associates LLC (CRN 16074062). KB & Associates*

*has also been retained to provide ongoing consulting support to all Step CG personnel involved in all facets of E-Rate projects.*

**Finding No. 5, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2; FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced USAC for Equipment Not Requested by the Beneficiary<sup>5</sup>**

**Condition**

The Beneficiary’s Service Provider, Step CG, over-invoiced the E-Rate program for quantities of equipment that the Beneficiary did not request on its FCC Form 471. Specifically, the Service Provider invoiced USAC for quantities that exceeded those that the Beneficiary requested, as follows:

Model Number	Quantity Approved on Form 471	Quantity Invoiced	Unit Price	Invoiced Amount Exceeding Form 471
1010411	8	22	\$104	\$1,456
AA1403019-E6	10	12	\$109	\$218
AA1403020-E6	10	12	\$140	\$280
<b>Total</b>				<b><u>\$1,954</u></b>

**Cause**

The Service Provider did not have policies and procedures in place to ensure that the quantities it invoiced did not exceed the quantities that USAC approved for funding.

**Effect**

The monetary effect for this finding is \$1,661 (\$1,954 multiplied by the Beneficiary’s 85 percent discount rate). Step CG has remitted this amount to USAC, so there is no recommended recovery.

Support Type	Monetary Effect	Recommended Recovery
Internal Connections FRN 1999055182	\$1,661	\$0

**Recommendation**

We recommend that the Service Provider implement controls and procedures to ensure that it only invoices USAC for equipment that the Beneficiary requested and that USAC approved for funding.

**Service Provider Response**

Step CG remitted \$1,661 to USAC on April 18, 2022, Step CG provided the remittance statement for this transaction with its response to the audit finding.

<sup>5</sup> See also 47 C.F.R § 54.504(a) (2018).

Step CG recognizes that internal controls were lacking and has implemented changes in its organization, policies and procedures to ensure that these issues do not occur in the future. The specific changes are as follows:

1. *Project Management – As of January 2021 Step CG has assigned each E-Rate project a dedicated project manager responsible for implementation according to the contract and the E-Rate 471. Prior to that, sales operations was responsible for implementation.*
2. *Change Management – Step CG has implemented ConnectWise Manage as of Oct. 2021 This IT infrastructure and customer management tool is assisting Step in managing change processes.*
3. *Invoice Management – Step CG has implemented Microsoft Dynamics Business Central. This accounting application will give Step the flexibility to manage a dual invoice process as required for Service Provider Invoicing. In addition, Step has assigned its Controller (CPA) to manage all E-Rate invoicing going forward. Controls for each invoice prior to submittal now include the following:*
  - a. *Before an order is placed, the Controller will review the purchase documents against the Form 471 to ensure alignment.*
  - b. *Once an order has been placed in the system an invoice can be generated*
  - c. *Prior to invoice creation the controller will review any contract changes/addendums and any changes to the Funding Commitment Decision Letter via post commitment changes (Service Substitutions, etc.) and FRN*
  - d. *Once validation of any changes by the project Manager and controller have been completed and confirmation of delivery of services has occurred an invoice will be created and submitted*
  - e. *Project manager will confirm that any changes that have occurred are documented in all systems*
  - f. *Controller will track invoice payment from both applicant, and USAC, if applicable.*
4. *Training – All account management personnel are required to attend two E-Rate Manufacturer trainings to be certified to work with E-Rate accounts. In addition, all personnel that are engaged in E-Rate processes are required to attend two annual 1 hour E-Rate trainings provided by KB & Associates LLC (CRN 16074062). KB & Associates have also been retained to provide ongoing support to all Step CG personnel involved in all facets of E-Rate projects.*

**Finding No. 6, 47 C.F.R § 54.523 (2018) – Untimely Payment of Beneficiary’s Non-Discounted Share to Service Provider**

**Condition**

The Beneficiary did not consistently pay its non-discounted share for services received under FRN 1999057006 in a timely manner. We reviewed the Service Provider bills and the Beneficiary’s check payments and noted one instance in which the Beneficiary did not pay the

Service Provider’s bill within 90 days of receiving the services, as required by FCC Rules.<sup>6</sup> Specifically, we noted the following untimely payment:

FRN	Invoice Date	Payment Date	Days Between	Amount
1999057006	10/19/2020	8/12/2021	297	\$3,333

**Cause**

The Beneficiary did not have controls in place to ensure that it complied with FCC Rules regarding the payment of its non-discounted share of costs for eligible services.

**Effect**

There is no recommended USAC recovery for this finding, as the Beneficiary has paid its non-discounted share for the services. However, by not making payments in a timely manner, the Beneficiary is at an increased risk of failing to pay its non-discounted share.

Support Type	Monetary Effect	Recommended Recovery
Internal Connections FRN 1999057006	<u>\$527</u>	<u>\$0</u>
<b>Total</b>	<b><u>\$527</u></b>	<b><u>\$0</u></b>

**Recommendation**

We recommend that the Beneficiary establish and implement internal control policies and procedures to ensure that it pays service providers within 90 days after completion delivery of service.

**Beneficiary Response**

*DCPS understands the Fund Administrator’s responsibilities and fully supports USAC’s mission to prevent Waste, Fraud and Abuse from the E-Rate program but the District also contends that this comprehensive USAC Beneficiary Compliance Audit arrived at a time when DCPS was just finding its feet after many months of COVID-19 Pandemic-generated school and office closures, subsequent staff illness and the delays in recovering staff resources, and the resulting supply chain difficulties in obtaining the Network Infrastructure equipment. All of these factors greatly impacted our standard operating procedures.*

*A brief timeline of Duval’s Category 2 FCC Form 471 # 191039774:*

- *March 26, 2019 – FCC Form 471 # 191039774 filed & certified*
- *April 2019 – First Purchase Order Issued for Switches (installed June 2019)*
- *June 2019 – Second Purchase Order issued (installed June 2019)*
- *March 12, 2020 – Spring break extended to March 20, due to COVID-19*
- *March 17, 2020 – Remote Learning, and personnel moving to remote offices, was announced by Dr. Greene, Superintendent, as per Governor DeSantis*

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

- *March 26, 2020 – FCDL for switches was received*
- *April 1, 2020 – Work from Home Guide emailed out to district personnel*
- *May 8, 2020 – School closures extended to August 2020 school year*
- *July 27, 2020 – District announced all personnel and students will be returning August 20, 2020*
- *August 27, 2020 – School closures started being announced due to rates of infection*
- *August 30, 2020 – More school closures announced*
- *August 31, 2020 – More school closures announced etc.*
- *August 2021 - Duval County School reopens with beginning of new Scholastic Year.*
- *September 30, 2022 -Last Date to Receive services for FRN# 1999055182*
- *January 23, 2023 - Last Date to Invoice for FRN# 1999055182.*

*This timeline illustrates the confluence of events that led to the delays in the reconciliation of our entire Network Infrastructure Project. This much anticipated Infrastructure enhancement was across all 160+ locations district-wide and presented our Information Technology & Accounts Receivables staffs with great difficulties given their office was closed for many weeks and they found themselves frequently working remotely without access to certain, vital files.*

*Despite the myriad challenges posed by the delayed approval of our FY2019 FCC Form 471 # 191039774, the COVID-19 Pandemic and resulting the [sic] industry-wide delays and scarcity of Network Infrastructure Equipment, Duval County Public Schools recognizes that our internal controls need an all-embracing review. We acknowledge modifications must be implemented within our organization to ensure that this does not occur in the future.*

*In the past few months DCPS has taken on new, experienced resources to oversee all E-Rate projects at the district level and reporting directly to Ms. Terri Webb, (Duval County Public Schools, Director – IT Infrastructure). Our new District E-Rate resources will work in lockstep with District IT Network Supervisor (and staff), DCPS Account Payable staff, DCPS E-Rate Services Providers, and link daily with our E-Rate Partner, CSM Consulting on the following:*

1. *Post Commitment Review – DCPS will conduct a more stringent post commitment review of each Funding Commitment Decision Letter and reconcile these to our FRN line items, vendor pricing/contracting to minimize and ultimately eradicate discrepancies. Any required service substitutions will be identified and submitted prior to invoicing.*
2. *Invoice Review – DCPS E-Rate staff will also extend that Post-commitment reconciliation process to Purchase Orders and Final Invoices to make certain these all tie back to USAC Funding Commitment Decision Letter (FCDL) committed amounts thus reducing the ‘back and forth’ between Service Provider Invoicing staff thus streamlining the District’s repayment turnaround period.*
3. *DCPS Account Payables – DCPS E-Rate staff will also maintain a running multi-funding year reconciliation of all E-Rate post commitment processes by liaising with District IT Network Supervisor (and staff), DCPS Account Payable staff, DCPS E-Rate Services Providers, CSM Consulting and DCPS Technology Department Leadership to further*

facilitate the payment of the District's non-discounted portion within the required 90-day period.

4. Training – Our E-Rate staff will participate in continued E-Rate program training related to all Pre and Post Commitment process and all E-Rate program guidance on a constant basis. This training will be conducted by our E-Rate partners, CSM Consulting who will use all available FCC & USAC guidance as the primary source for said training sessions.

DCPS wishes to reiterate its respect for the E-Rate program and regards the Fund Administrator's strong stewardship of the E-Rate program with great reverence. Duval County Public Schools has much to be thankful for the E-Rate Program and will strive to be a better applicant in future funding cycles.

**Criteria**

Finding	Criteria	Description
1	47 C.F.R § 54.504(d)(1) (2018)	<p><b>Service substitution.</b> (1) The Administrator shall grant a request by an applicant to substitute a service or product for one identified on its FCC Form 471 where:</p> <ul style="list-style-type: none"> <li>(i) The service or product has the same functionality;</li> <li>(ii) The substitution does not violate any contract provisions or state or local procurement laws;</li> <li>(iii) The substitution does not result in an increase in the percentage of ineligible services or functions; and</li> <li>(iv) The applicant certifies that the requested change is within the scope of the controlling FCC Form 470, including any associated Requests for Proposal, for the original services.</li> </ul>
2, 4, 5	FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2	<p>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.</p> <p>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.</p>

Finding	Criteria	Description
		<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>
2, 4, 5	FCC Form 474, Service Provider Invoice (SPI) Form at Block 3	<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>A. I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitment.</i></p> <p><i>B. The certifications made on the Service Provider Annual Certification Form (FCC Form 473) by this Service Provider are true and correct.</i></p>
2, 4	47 C.F.R § 54.500 (2018)	<i>Pre-discount price. The “pre-discount price” means, in this subpart, the price the service provider agrees to accept as total payment for its telecommunications or information services. This amount is the sum of the amount the service provider expects to receive from the eligible school or library and the amount it expects to receive as reimbursement from the universal service support mechanisms for the discounts provided under this subpart.</i>
2	47 C.F.R § 54.505(a) (2018)	<i>Discounts for eligible schools and services shall be set as a percentage discount from the pre-discount price.</i>
3, 5	47 C.F.R § 54.504(a) (2018)	<i>(a) Filing of the FCC Form 471. An eligible school, library, or consortium that includes an eligible school or library seeking to receive discounts for eligible services under this subpart shall, upon entering into a signed contract or other legally binding agreement for eligible services, submit a completed FCC Form 471 to the Administrator.</i>

Finding	Criteria	Description
		<p><i>(1) The FCC Form 471 shall be signed by the person authorized to order eligible services for the eligible school, library, or consortium and shall include that person's certification under oath that:</i></p> <p><i>... (iii) The entities listed on the FCC Form 471 application have secured access to all of the resources, including computers, training, software, maintenance, internal connections, and electrical connections, necessary to make effective use of the services purchased. The entities listed on the FCC Form 471 will pay the discounted charges for eligible services from funds to which access has been secured in the current funding year or, for entities that will make installment payments, they will ensure that they are able to make all required installment payments. The billed entity will pay the non-discount portion of the cost of the goods and services to the service provider(s).</i></p> <p><i>(iv) The entities listed on the FCC Form 471 application have complied with all applicable state and local laws regarding procurement of services for which support is being sought.</i></p> <p><i>... (vi) The entities listed in the application have complied with all program rules and acknowledge that failure to do so may result in denial of discount funding and/or recovery of funding.</i></p>
3	FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3	<p><i>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:</i></p> <p><i>A. The discount amounts listed in this Billed Entity Applicant Reimbursement Form represent charges for eligible services and/or equipment delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486...</i></p> <p><i>... C. The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by the Fund Administrator pursuant to a Funding Commitment Decision Letter (FCDL).</i></p>

Finding	Criteria	Description
3	<i>In the Matter of Schools And Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Order, 26 FCC Rcd 6847, para. 5 (2011)</i>	<i>...Thus, we direct USAC to allow an applicant to amend its forms to correct clerical and ministerial errors on their FCC Forms 470, FCC Form 471 applications, or associated documentation until an FCDL is issued.</i>
6	47 C.F.R § 54.523 (2018)	<i>An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services.</i>
6	<i>In the Matter of Schools And Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd. 15808, 15816, para. 24 (2004)</i>	<i>...Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the FCC's] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services... Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [its] rule that the beneficiary must pay its share.</i>

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC

M.P. Mesko

Megan P. Mesko, CPA, CFE  
Partner  
Alexandria, VA

**Attachment H**

**SL2022SP038**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**PERFORMANCE AUDIT**

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**PRESIDIO NETWORKED SOLUTIONS LLC**

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

**USAC AUDIT No. SL2022SP038**

**Cotton**

A  SIKICH COMPANY

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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
PRESIDIO NETWORKED SOLUTIONS LLC  
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND  
E-RATE SUPPORT MECHANISM RULES**

**Executive Summary**

**August 18, 2023**

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division  
Universal Service Administrative Company  
700 12<sup>th</sup> 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 Presidio Networked Solutions LLC (Service Provider), Service Provider Identification Number (SPIN) 143015315, for Funding Year (FY) 2020, 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 Service Provider management. Our responsibility is to make a determination regarding the Service Provider’s compliance with FCC Rules based on our audit, pursuant to 47 C.F.R. Section 54.516 (c).

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, evidence supporting the type and amount of services that the Service Provider provided to E-Rate applicants in the states of Florida, Louisiana, and North Carolina (selected Beneficiaries). It also included performing other procedures we considered necessary to make a determination regarding the Service Provider’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 Service Provider, 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 that the Service Provider did not comply with FCC Rules, as provided in the two detailed audit findings discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<b>Finding No. 1, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 and FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 Service Provider Invoiced the E-Rate Program for Equipment Not Provided.</b> The Service Provider did not initially reimburse the E-Rate program for equipment that the Beneficiary purchased but subsequently returned.	\$11,824	\$0	\$0
<b>Finding No. 2, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 and FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 Service Provider Invoiced the E-Rate Program for Services Not Requested.</b> The Service Provider invoiced the E-Rate program for services the Beneficiary did not include on its FCC Form 471 funding request.	<u>\$340</u>	\$0	<u>\$0</u>
<b>Total Net Monetary Effect</b>	<u><b>\$12,164</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

**USAC Management Response**

USAC management concurs with the Audit Results stated above. USAC will request the Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Invoice Training Webinar, February 10, 2022)
- <https://www.usac.org/e-rate/learn/webinars/> (Fall 2022 Annual Training – E-Rate Post-Commitment Process, November 03, 2022)
- <https://www.usac.org/e-rate/applicant-process/before-youre-done/service-substitutions/>

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

**Purpose, Background, Scope, and Procedures**

The purpose of the audit was to determine whether the Service Provider complied with FCC Rules for FY 2020. The Service Provider is headquartered in New York and provides internal connections and related services to customers across the globe. The Service Provider’s Fulton, Maryland office is responsible for E-Rate program administration.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Service Provider for FY 2020 as of April 11, 2022, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$24,236,281	\$3,402,791
Managed Internal Broadband Services	\$8,730	\$0
Basic Maintenance of Internal Connections	\$72,460	\$0
<b>Total</b>	<b>\$24,317,471</b>	<b>\$3,402,791</b>

The “amount committed” total represents 32 FCC Form 471, *Description of Services Ordered and Certification*, applications submitted by Beneficiaries for FY 2020 that resulted in 108 Funding Request Numbers (FRNs). We selected a sample of 25 FRNs, which represent \$1,911,057 of the funds committed and \$1,731,080 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

**A. Eligibility Process**

We conducted inquiries with the Service Provider and the selected Beneficiaries and examined documentation to determine whether equipment was eligible and had been delivered and installed in accordance with FCC Rules. We also conducted inquiries and examined documentation to determine if the Service Provider was eligible to perform services, as well as to obtain general background information.

**B. Competitive Bid Process**

We reviewed the Service Provider’s contracts with the selected Beneficiaries to determine whether the contracts were properly executed. We evaluated the equipment

requested and purchased to determine whether the equipment provided by the Service Provider matched that requested in the selected Beneficiaries' FCC Form 471 documents.

**C. Billing Process**

We reviewed the FCC Forms 474, *Service Provider Invoice (SPI)* Forms, for which USAC disbursed payment to determine whether the equipment identified on the SPI Forms and corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider's contracts and were eligible in accordance with the E-Rate Eligible Services List. We also examined documentation to determine whether the Service Provider charged the selected beneficiaries the lowest corresponding price charged for similar equipment billed to non-residential customers situated similarly to the selected beneficiaries.

**D. Reimbursement Process**

We obtained and examined the SPI Forms that the Service Provider submitted to USAC for reimbursement for the equipment delivered to the selected Beneficiaries, then performed procedures to determine whether the Service Provider had properly invoiced USAC. Specifically, we reviewed Service Provider bills associated with the SPI Forms for equipment provided to the selected Beneficiaries. We determined whether the Service Provider issued credits on its bills to the selected Beneficiaries.

**Detailed Audit Findings**

**Finding No. 1, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 and FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced the E-Rate Program for Equipment Not Provided**

**Condition**

The Service Provider did not initially reimburse the E-Rate program for equipment that Redesign Schools (the Beneficiary) purchased under FRNs 2099052990 and 2099052979 but subsequently returned. Specifically, the Beneficiary returned two switches to the Service Provider because the switches were not compatible with the Beneficiary's existing network infrastructure. The Beneficiary requested and received USAC's approval to obtain a service substitution for the returned equipment but did not actually order the substituted equipment. As a result, the Service Provider invoiced the E-Rate program for \$13,910 in equipment that the Beneficiary returned and did not replace.

FRN	Equipment Part Numbers	Equipment Description	Amount
2099052990	MS450-12-HW and LIC-MS450-12-3YR	Meraki MS450-L-3 Stack Cld-Mngd 12X40GE Aggregation Switch and Meraki MS450-12 Enterprise License and Support, 3 Year	\$6,955
2099052979	MS450-12-HW and LIC-MS450-12-3YR	Meraki MS450-L-3 Stack Cld-Mngd 12X40GE Aggregation Switch and	\$6,955

FRN	Equipment Part Numbers	Equipment Description	Amount
		Meraki MS450-12 Enterprise License and Support, 3 Year	
<b>Total</b>			<b><u>\$13,910</u></b>

**Cause**

The Service Provider did not track returns for equipment funded through the E-Rate program to ensure that it reimbursed USAC for the cost of the returned equipment.

**Effect**

The monetary effect for this finding is \$5,912 for each FRN (\$6,955 multiplied by the Beneficiary’s 85 percent discount rate), for a total of \$11,824 (\$13,910 multiplied by the Beneficiary’s 85 percent discount rate). Because Presidio has provided documentation to support that it repaid the E-Rate program for the equipment identified above, we are not recommending recovery for this finding.

Service Type FRN	Monetary Effect	Recommended Recovery
Internal Connections FRN 2099052990	\$5,912	\$0
Internal Connections FRN 2099052979	<u>\$5,912</u>	<u>\$0</u>
<b>Total</b>	<b><u>\$11,824</u></b>	<b><u>\$0</u></b>

**Recommendation**

We recommend that the Service Provider implement controls and procedures to ensure that it refunds the E-Rate program for the cost of returned equipment.

**Service Provider Response**

*The Report recognizes that Presidio has fully refunded USAC for the returned equipment addressed the specific finding. However, Presidio continues to focus and prioritize continuous improvement as part of its E-rate compliance program. To that end, Presidio has recently implemented the following controls and procedures that should address this situation to avoid reoccurrence of this issue going forward.*

- *Presidio has augmented our standard Return Materials Authorization (RMA) process to include steps with input from the dedicated SLED E-Rate compliance/operations team. Any and all RMA request related to E-Rate funded orders shall be processed through this dedicated team. Presidio E-Rate operations and RMA teams will process customer and USAC credits associated with approved vendor credits. Collections/AR will be immediately notified of any changes to the E-rate line items and require the billing team to make determination of any action or inaction that shall be necessary.*

- *The RMA change and determination will be documented and memorialized in our system of record and reviewed by the team on a quarterly basis. This shall promote effective oversight/tracking and timely resolution of open RMA items.*
- *The implementation of these process will also establish a safeguard to ensure that no RMA remains open for an extended time without taking action or making a determination that the matter is resolved with USAC (as required). This control and safeguard will ensure that Presidio is timely in its returns and promote action regarding the FRN(s), including situations when there is an outstanding pending approval or direction from USAC is required (Example: Part Substitution Forms). This includes any that may extend over into the next funding year.*
- *This updated process will be incorporated into the Presidio E-Rate process and training.*

*By implementing the processes and controls above, Presidio has addressed the finding above and ensures future compliance in this area.*

**Finding No. 2, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 and FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 – Service Provider Invoiced the E-Rate Program for Ineligible Services**

**Condition**

The Service Provider invoiced the E-Rate program for services that Idea Public Schools Louisiana, Inc. (the Beneficiary), did not include on its FCC Form 471 funding request. Specifically, the Service Provider invoiced USAC \$400 under FRN 2099065868 for installing an Uninterrupted Power Supply (UPS). However, the Beneficiary did not include the UPS or the installation services in its FCC Form 471 for this FRN.

**Cause**

The Service Provider did not have sufficient controls in place to ensure that it only invoiced USAC for services that USAC approved for funding.

**Effect**

The monetary effect for this finding is \$340 (\$400 multiplied by the Beneficiary’s 85 percent discount rate). Because Presidio has provided documentation to support that it repaid the E-Rate program for the equipment and services identified above, we are not recommending recovery for this finding.

Service Type	Monetary Effect	Recommended Recovery
Internal Connections 2099065868	\$340	\$0
<b>Total</b>	<b>\$340</b>	<b>\$0</b>

**Recommendation**

We recommend that the Service Provider implement controls and procedures to ensure that it only invoices the E-Rate program for services that USAC approved for funding.

**Service Provider Response**

*The Report recognizes that Presidio has fully reconciled any owed amount and has addressed the specific finding. However, Presidio continues to focus and prioritize continuous improvement as part of its E-Rate compliance program.*

*To that end, Presidio has recently designed and implemented in a new process as part of its service ordering procedures. The new process will allow the E-rate operations team to better segment funded and non-funded professional service tasks. Presidio currently employs a standard pricing form to process professional service orders. This form will now specifically split USAC funded professional services from non-funded services and will allow for more clear delineation for order processing and invoicing of USAC funded professional services.*

*The new process and format will refine process controls that will help mitigate against manual entry errors and be subject to quality control reviews within the system ordering process.*

*By implementing the processes and controls above, Presidio has addressed the finding above and ensures future compliance in this area.*

**Criteria**

<b>Finding</b>	<b>Criteria</b>	<b>Description</b>
1, 2	FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2	<p>... 9. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider contain requests for universal service support for 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.</p> <p>10. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider are based on bills or invoices issued by the Service Provider to the Service Provider’s customers on behalf of schools, libraries, and consortia of those entities as deemed eligible for universal service support by the fund administrator, and exclude any charges previously invoiced to the fund administrator for which the fund administrator has not issued a reimbursement decision.</p> <p>11. I certify that the bills or invoices issued by this 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.</p>

Finding	Criteria	Description
1,2	FCC Form 474, Service Provider Invoice (SPI) Form at Block 3	<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>A. I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitment.</i></p> <p><i>B. I certify that the certifications made on the Service Provider Annual Certification Form (FCC Form 473) by this Service Provider are true and correct.</i></p>

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC



Megan P. Mesko CPA, CFE  
 Partner  
 Alexandria, VA

**Attachment I**  
**SL2022LR014**

Available For Public Use

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**PERFORMANCE AUDIT**

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**STATE OF DELAWARE**

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

**USAC AUDIT No. SL2022LR014**

**Cotton**

A  **SIKICH**. COMPANY

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FINDING No. 1, FCC FORM 472, BILLED ENTITY APPLICANT REIMBURSEMENT (BEAR) FORM AT  
BLOCK 3 – BENEFICIARY INVOICED THE E-RATE PROGRAM FOR INELIGIBLE SERVICES DISCOUNT  
AMOUNT..... 5

**CRITERIA ..... 6**

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
STATE OF DELAWARE  
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND  
E-RATE SUPPORT MECHANISM RULES**

## **Executive Summary**

**August 30, 2023**

Ms. Teleshia Delmar, Vice President – Audit and Assurance Division  
Universal Service Administrative Company  
700 12<sup>th</sup> 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 State of Delaware (Beneficiary), Billed Entity Number (BEN) 153062, 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, pursuant to 47 C.F.R. Section 54.516 (c).

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the competitive bidding process undertaken to select Service Providers, 2) data used to calculate the discount percentage and the type and amount of services received, and 3) physical inventory of equipment purchased and maintained. It also included performing other procedures we considered necessary to make a determination regarding the Beneficiary’s compliance with relevant FCC Rules. The evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

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

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

**Audit Results and Recovery Action**

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

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
<b>Finding No. 1, FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3 – Beneficiary Invoiced the E-Rate Program for Ineligible Services Discount Amount.</b> The Beneficiary incorrectly calculated eligible service costs on its BEAR Form.	\$300	\$0	\$300
<b>Total Net Monetary Effect</b>	<b><u>\$300</u></b>	<b><u>\$0</u></b>	<b><u>\$300</u></b>

## USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. USAC may conduct expanded reviews on funding requests and applications to ensure compliance with E-Rate program rules. These expanded reviews may result in additional recoveries and/or commitment adjustments that were not related to the original scope of this audit.

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/learn/webinars/> (E-Rate Invoice Training Webinar, February 10, 2022)

USAC records show the Beneficiary is 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
2099084765	\$300

## 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 consortium located in Dover, Delaware, that serves 139,799 students.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Beneficiary for FY 2020 as of April 11, 2022, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$4,924,114	\$2,476,013
Internet Access	\$1,998,792	\$1,704,179
<b>Total</b>	<b>\$6,922,906</b>	<b>\$4,180,192</b>

The “amount committed” total represents 43 FCC Form 471, *Description of Services Ordered and Certification*, applications submitted by the Beneficiary for FY 2020 that resulted in 322 Funding Request Numbers (FRNs). We selected a sample of 10 FRNs, which represent \$2,208,980 of the funds committed and \$1,923,645 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/inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated the accuracy of the discount percentage.

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

**B. Competitive Bid Process**

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

**C. Invoicing Process**

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

**D. Site Visit**

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

**E. Reimbursement Process**

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

**Detailed Audit Finding**

**Finding No. 1, FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3 – Beneficiary Invoiced the E-Rate Program for Ineligible Services Discount Amount**

**Condition**

The Beneficiary incorrectly calculated its eligible Internet access costs when preparing a BEAR Form for services received under FRN 2099084765. Specifically, when invoicing the E-Rate program for increased bandwidth provided to one location in May 2021, the Beneficiary erroneously used the monthly recurring cost of \$1,064 rather than the correct prorated amount of \$641 in eligible charges. As a result, the Beneficiary overstated the non-discounted amount on its BEAR Form by \$423 (\$1,064 – \$641).

**Cause**

The Beneficiary did not have adequate policies and procedures in place to ensure the accuracy of amounts invoiced to the E-Rate program.

**Effect**

The monetary effect of this finding is \$300 (\$423 multiplied by the Beneficiary’s 71 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Internal Access FRN 2099084765	\$300	\$300
<b>Total</b>	<b>\$300</b>	<b>\$300</b>

**Recommendations**

We recommend that:

1. E-Rate program management seek recovery of the amount identified in the Effect section above.

2. The Beneficiary implement controls to ensure that its BEAR Forms are accurate before invoicing the E-Rate program.

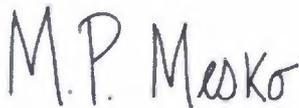
**Beneficiary Response**

*The Beneficiary accepts and agrees with the auditors' conclusion in this regard. This overpayment of \$300 is attributable to a clerical mistake. The Beneficiary has implemented the appropriate controls to ensure this cannot happen in the future and will work with the relevant parties to ensure the amount identified in the Effect section is returned to the Program.*

**Criteria**

Finding	Criteria	Description
1	FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) Form at Block 3	<p><i>The Billed Entity must sign the Certification and declare under penalty of perjury that:</i></p> <p><i>(A) The discount amounts listed in Column (15) 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.</i></p> <p><i>(C) The discount amounts listed in Column (15) of this Billed Entity Applicant Reimbursement Form are for eligible services approved by the fund administrator pursuant to a Funding Commitment Decision Letter.</i></p>

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC



Megan P. Mesko CPA, CFE  
 Partner  
 Alexandria, VA