



Schools & Libraries Committee Meeting

Audit Report Briefing Book

Monday, July 28, 2025

Available For Public Use

Universal Service Administrative Company

700 12th Street, NW, Suite 900

Washington, D.C. 20005

Summary of the Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: April 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Attachment A Pioneer Telephone Association, Inc.	0	<ul style="list-style-type: none"> Not applicable. 	\$404,051	\$0	\$0	\$0	N/A
Attachment B 20/20 Technologies, LLC	0	<ul style="list-style-type: none"> Not applicable. 	\$556,957	\$0	\$0	\$0	N/A
Attachment C Santa Ana Unified School District	0	<ul style="list-style-type: none"> Not applicable. 	\$1,479,013	\$0	\$0	\$0	N/A
Total	0		\$2,440,021	\$0	\$0	\$0	

INFO Item: Audit Released April 2025
Attachment A
7/28/2025

Attachment A

SL2023SP034

*Limited Scope Performance Audit
of
The Pioneer Telephone Association, Inc.'s
Compliance with the Federal Universal Service Fund
E-Rate Support Mechanism Rules
for Funding Year 2021*

Conducted for:

Universal Service Administrative Company

USAC Audit No. SL2023SP034


MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS
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Suite 910
Washington, DC 20005

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Executive Summary

March 24, 2025

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:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) engaged Regis & Associates, PC to audit the compliance of The Pioneer Telephone Association, Inc. (Service Provider), Service Provider Identification Number 143002303, for the twelve-month period ended June 30, 2022, (Funding Year 2021), 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 relevant FCC Rules is the responsibility of the Service Provider. Our responsibility is to make a determination regarding the Service Provider's compliance with the FCC Rules, based on our limited scope performance audit.

We conducted this performance 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 we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. 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 Beneficiaries, as well as performing other procedures we considered necessary to make a determination regarding the Service Provider's compliance with the FCC Rules. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the test work performed, our audit did not disclose any areas 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,

Regis & Associates, PC

Regis & Associates, PC

Washington, DC

March 24, 2025

Background, Objective, Scope, and Procedures

Background

The Pioneer Telephone Association, Inc – Overview

The Pioneer Telephone Association, Inc., doing business as Pioneer Communications, was established in 1950, and has become a key telecommunications provider in Kansas. This company serves over 18,000 customers across 7,000 square miles, investing more than \$75 million in the past decade to modernize and expand its infrastructure. Today, it provides a broad range of services, including high-speed internet, digital and landline phone services, and streaming TV, underlining its mission to deliver advanced connectivity and support to its community.

Objective

The objective of this performance audit was to determine whether the Service Provider complied with the applicable FCC Rules that governed the E-Rate program, for Funding Year 2021.

Scope

The scope of this performance audit includes examining on a test basis, evidence supporting the Service Provider’s compliance with the FCC Rules. These rules govern E-Rate commitment amounts and disbursements received by the Service Provider during Funding Year 2021. The testing and analysis conducted is detailed in the Procedures section of this report. The following chart summarizes the E-Rate program support amounts committed and disbursed for Funding Year 2021 (audit period):

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$1,083,783	\$404,051

Note: The amounts committed and disbursed reflect Funding Year activity as of April 27, 2023.

The committed total represents 16 FCC Form 471 applications with 16 Funding Request Numbers (FRNs). We selected eight FRNs¹ of the funded 16 FRNs which represent \$1,063,033 of the funds committed and \$388,057 of the funds disbursed for the audit period, to perform the procedures enumerated below with respect to the Funding Year 2021 applications submitted by the selected Beneficiaries.

¹ The FRNs included in the scope of this audit are: 2199029930, 2199018899, 2199020172, 2199033023, 2199048805, 2199052156, 2199027545, and 2199002182.

Procedures

We performed procedures related to the E-Rate program, relative to amounts committed and disbursed for Funding Year 2021, as of April 27, 2023. These procedures are enumerated below:

A. Eligibility Process

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

B. Competitive Bid Process

We conducted inquiries and examined documentation to determine whether the Service Provider participated in, or appeared to have influenced, the selected Beneficiaries' competitive bidding 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 equipment and services requested and purchased to determine whether the Service Provider provided the services requested in the selected Beneficiaries' FCC Form 471. We also examined documentation to determine whether the Service Provider offered the selected Beneficiaries the lowest corresponding price charged for similar services to non-residential customers similarly situated to the selected Beneficiaries.

C. Billing Process

We reviewed the FCC *Form 474 Service Provider Invoice* (SPI) Forms for which payment was disbursed by USAC to determine whether the services identified on the SPI Forms, and corresponding Service Provider bills, were consistent with the terms and specifications of the Service Provider's contracts, and eligible in accordance with the E-Rate program Eligible Services List. We also examined documentation to determine whether the Service Provider charged the selected Beneficiaries the lowest corresponding price charged to its similarly situated non-residential customers for similar services. In addition, we examined documentation to determine whether the Service Provider billed the selected Beneficiaries for the non-discounted portion of eligible services purchased with universal service discounts and did not provide rebates, including free services or products.

D. Reimbursement Process

We obtained and examined the SPI Forms submitted for reimbursement for services delivered to the selected Beneficiaries and performed procedures to determine whether USAC was invoiced properly. Specifically, we reviewed invoices associated with the SPI Forms for services provided to the selected Beneficiaries. We also 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 its bills to the selected.

** This concludes the audit report.**

**INFO Item: Audit Released April 2025
Attachment B
7/28/2025**

Attachment B

SL2023SP031

*Limited Scope Performance Audit
of
20/20 Technologies, LLC's
Compliance with the Federal Universal Service Fund
E-Rate Support Mechanism Rules
for Funding Year 2021*

*Conducted for:
Universal Service Administrative Company*

USAC Audit No. SL2023SP031

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Executive Summary

March 21, 2025

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:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) engaged Regis & Associates, PC to audit the compliance of 20/20 Technologies, LLC. (Service Provider), Service Provider Identification Number 143044016, for the twelve-month period ended June 30, 2022, (Funding Year 2021), 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 Rules (FCC) Rules). Compliance with the relevant FCC Rules is the responsibility of the Service Provider. Our responsibility is to make a determination regarding the Service Provider's compliance with the FCC Rules, based on our limited scope performance audit.

We conducted this performance 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 we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. 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 Beneficiaries, as well as performing other procedures we considered necessary to make a determination regarding the Service Provider's compliance with the FCC Rules. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the test work performed, our audit did not disclose any areas 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,

Regis & Associates, PC

Regis & Associates, PC

Washington, DC

March 21, 2025

Background, Objective, Scope, and Procedures

Background

20/20 Technologies, LLC – Overview

20/20 Technologies, LLC (Company) is one of the largest Information Technology (IT) managed service providers for education in the state of Nebraska. The Company has expanded its operations to surrounding states such as Iowa and Kansas. The Company offers a wide range of IT solutions to help meet the needs of both businesses and schools, which include IT audits, managed IT services, backup and disaster planning, networking, interactive panels, and IP PBX systems.

Objective

The objective of this performance audit was to determine whether the Service Provider complied with the applicable FCC Rules that governed the E-Rate program, for Funding Year 2021.

Scope

The scope of this performance audit includes examining on a test basis, evidence supporting the Service Provider’s compliance with the FCC Rules. These rules govern E-Rate commitment amounts and disbursements received by the Service Provider during Funding Year 2021. The testing and analysis conducted is detailed in the Procedures section of this report. The following chart summarizes the E-Rate program support amounts committed and disbursed for Funding Year 2021 (audit period):

Service Type	Amount Committed	Amount Disbursed
Basic Maintenance of Internal Connections	\$9,571	\$0
Internal Connections	\$535,014	\$511,769
Managed Internal Broadband Services	\$45,188	\$45,188
Total	\$589,773	\$556,957

Note: The amounts committed and disbursed reflect Funding Year activity as of April 26, 2023.

The committed total represents 23 FCC Form 471 applications with 30 Funding Request Numbers (FRNs). We selected 13 FRNs¹ of the funded 30 FRNs which represent \$466,812 of the funds committed and \$443,567 of the funds disbursed for the audit period, to perform the procedures enumerated below with respect to the Funding Year 2021 applications submitted by the selected Beneficiaries.

¹ The FRNs included in the scope of this audit are: 2199060335, 2199056560, 2199055979, 2199051945, 2199059406, 2199041812, 2199058639, 2199057269, 2199062372, 2199025213, 2199025365, 2199039685, and 2199039623.

Procedures

We performed procedures related to the E-Rate program, relative to amounts committed and disbursed for Funding Year 2021, as of April 26, 2023. These procedures are enumerated below:

A. Eligibility Process

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

B. Competitive Bid Process

We conducted inquiries and examined documentation to determine whether the Service Provider participated in, or appeared to have influenced, the selected Beneficiaries' competitive bidding 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 equipment and services requested and purchased to determine whether the Service Provider provided the equipment and services requested in the selected Beneficiaries' FCC Form 471. We also examined documentation to determine whether the Service Provider offered the selected Beneficiaries the lowest corresponding price charged for similar equipment and services to non-residential customers similarly situated to the selected Beneficiaries.

C. Billing Process

We reviewed the FCC *Form 474 Service Provider Invoice* (SPI) Forms for which payment was disbursed by USAC to determine whether the equipment and services identified on the SPI Forms, and corresponding Service Provider bills, were consistent with the terms and specifications of the Service Provider's contracts, and eligible in accordance with the E-Rate program Eligible Services List. We also examined documentation to determine whether the Service Provider charged the selected Beneficiaries the lowest corresponding price charged to its similarly situated non-residential customers for similar equipment and services. In addition, we examined documentation to determine whether the Service Provider billed the selected Beneficiaries for the non-discounted portion of eligible equipment and services purchased with universal service discounts and did not provide rebates, including free services or products.

D. Reimbursement Process

We obtained and examined the SPI Forms submitted for reimbursement for equipment and services delivered to the selected Beneficiaries and performed procedures to determine whether USAC was invoiced properly. Specifically, we reviewed invoices associated with the SPI Forms for equipment and services provided to the selected Beneficiaries. We also 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 its bills to the selected.

** This concludes the audit report.**

**INFO Item: Audit Released April 2025
Attachment C
7/28/2025**

Attachment C

SL2023LR017

*Limited Scope Performance Audit
of
Santa Ana Unified School District's*

*Compliance with the Federal Universal Service Fund
E-Rate Support Mechanism Rules*

for Funding Year 2021

Conducted for:

Universal Service Administrative Company

USAC Audit No. SL2023LR017

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Executive Summary

March 20, 2025

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:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) engaged Regis & Associates, PC to audit the compliance of Santa Ana Unified School District (Beneficiary), Billed Entity Number 143778, for the twelve-month period ended June 30, 2022 (Funding Year 2021), using regulations and orders governing the federal Universal Service E-Rate Program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary's compliance with the FCC's Rules, based on our limited scope performance audit.

We conducted this performance 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 we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select Service Providers, data used to calculate the discount percentage and the type and amount of services received, physical inventory of equipment purchased and maintained, as well as performing other procedures we considered necessary to make a determination regarding the Beneficiary's compliance with the FCC Rules. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

Regis & Associates, PC

Sincerely,
Regis & Associates, PC
Washington, DC
Month 20, 2025

Background, Objective, Scope, and Procedures

Background

Santa Ana Unified School District– Overview

The Santa Ana Unified School District was organized in 1888 under the laws of the State of California. It is the second largest school district in Orange County, and the eleventh largest in California. The district operates under a locally elected five-member Board form of government and provides educational services to students from kindergarten to 12th grade, as mandated by the State and/or Federal agencies.

Objective

The objective of this performance audit was to determine whether the Beneficiary complied with the applicable FCC Rules, as well as the FCC Orders that governed the E-Rate Program in Funding Year 2021.

Scope

The scope of this performance audit includes examining on a test basis, evidence supporting the Beneficiary's compliance with the FCC Rules. The FCC Rules govern committed amounts and disbursements received during Funding Year 2021. The testing and analysis conducted are detailed in the Procedures section of this report. The following chart summarizes the E-Rate program support amounts committed and disbursed for Funding Year 2021 (audit period):

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$1,845,742	\$1,479,013
Internal Connections	\$7,318,937	\$0
Total	\$9,164,679	\$1,479,013

Note: The amounts committed and disbursed reflect Funding Year activity, as of April 27, 2023.

The committed total represents two FCC Form 471 applications with eight Funding Request Numbers (FRNs). We selected five FRNs of the funded eight FRNs¹, which represent \$7,642,772 of the funds committed; and \$1,409,893 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2021 applications submitted by the Beneficiary.

¹ The FRNs included in the scope of this audit were: 2199046161, 2199046182, 2199046123, 2199042775, and 2199042800.

Procedures

We performed procedures related to the E-Rate program, relative to amounts committed, and disbursed for Funding Year 2021, as of April 27, 2023. These procedures are enumerated below:

A. Application Process

We obtained an understanding of the Beneficiary's processes relating to the E-Rate program. Specifically, we examined documentation to determine if it supported effective use of funding and demonstrated that adequate controls existed to determine whether funds were used in accordance with the FCC Rules. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

B. Competitive Bid Process

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

C. Invoicing Process

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

D. Reimbursement Process

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

** This concludes the audit report.**

Summary of the Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: May 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action*	Commitment Adjustment	Entity Disagreement
Attachment D Los Angeles Unified School District	1	<ul style="list-style-type: none"> No significant findings. 	\$11,554,019	\$15,660	\$0	\$0	Partial
Attachment E Bakersfield City Elementary School District	0	<ul style="list-style-type: none"> Not applicable. 	\$425,443	\$0	\$0	\$0	N/A
Attachment F Fresno Unified School District	0	<ul style="list-style-type: none"> Not applicable. 	\$3,819,732	\$0	\$0	\$0	N/A
Attachment G Isana Academies	1	<ul style="list-style-type: none"> No significant findings. 	\$737,212	\$32,571	\$32,571	\$0	N
Attachment H Arlington Independent School District	0	<ul style="list-style-type: none"> Not applicable. 	\$4,896,961	\$0	\$0	\$0	N/A
Attachment I Greater Bergen Community Action Inc.	1	<ul style="list-style-type: none"> No significant findings. 	\$29,796	\$0	\$0	\$0	N
Total	3		\$21,463,163	\$48,231	\$32,571	\$0	

* The USAC Management Recovery Action may be less than the Monetary Effect as the circumstances did not warrant a recovery of funds (i.e., the Beneficiary paid its non-discounted share of services).

INFO Item: Audit Released May 2025

Attachment D

7/28/2025

Attachment D

SL2021LR016

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

LOS ANGELES UNIFIED SCHOOL DISTRICT

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

USAC AUDIT No. SL2021LR016



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
LOS ANGELES UNIFIED SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

January 19, 2022

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “Sikich” or “we”) audited the compliance of the Los Angeles Unified School District (Beneficiary), Billed Entity Number (BEN) 143454, using regulations governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as orders and other program requirements (collectively, Federal Communications Commission [FCC] Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with FCC Rules based on our audit.

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

¹ Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

Based on the test work performed, our audit disclosed one detailed audit finding, and one other matter, 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. An “other matter” is a condition that does not necessarily constitute a violation of FCC Rules but that warrants the attention of the Service Provider and USAC management.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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 audit found that the Beneficiary did not comply with the FCC Rules and one of the Beneficiary’s Service Providers could improve their billing processes, as set forth in the one detailed audit finding and one other matter discussed below.

Audit Results	Monetary Effect	Recommended Recovery
Finding No. 1, 47 C.F.R. § 54.523 (2018) – Untimely Payment of Beneficiary’s Non-Discounted Share to Service Provider. The Beneficiary did not pay its non-discounted share for all services received in a timely manner.	\$15,660	\$0
Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235 – Service Provider Billed the Beneficiary for the Discount Share of Services. One of the Beneficiary’s Service Providers billed the Beneficiary for the discounted share of service costs on the bills tested.	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$15,660</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/service-providers/step-5-invoicing/> (Step 5 Invoicing, please see Invoice Filing Deadlines Section)
- <https://www.usac.org/e-rate/learn/webinars/> (“E-Rate Invoice Training Webinar”, Please see 26:25 to 28:30 and 1:01:40 to 1:02:30)

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

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 school district located in Los Angeles, California that serves more than 138,000 students.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Beneficiary for FY 2019 as of May 24, 2021, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$24,157,062	\$10,503,794
Internal Connections	\$3,162,388	\$1,050,225
Basic Maintenance of Internal Connections	\$1,005,297	\$0
Total	<u>\$28,324,747</u>	<u>\$11,554,019</u>

The “amount committed” total represents eight FCC Form 471, *Description of Services Ordered and Certification Form*, applications submitted by the Beneficiary for FY 2019 that resulted in eight Funding Request Numbers (FRNs). We selected a sample of three of the FRNs,² which represent \$25,533,829 of the funds committed and \$11,554,019 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

² Our sample included FRNs 1999018417, 1999054400, and 1999030511.

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 the FCC Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We conducted 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 Bidding Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) considered the price of the eligible services and equipment as the primary factor when selecting its Service Providers. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470, *Description of Services Requested and Certification Form*, was posted on USAC's website before signing contracts with the selected Service Providers. Additionally, we examined the selected Service Provider contracts to determine whether they were properly executed.

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the equipment and services identified on the FCC Form 474, *Service Provider Invoices (SPI) Forms*, and corresponding Service Provider bills were consistent with the terms and specifications of the selected Service Provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share of costs.

D. Virtual Site Visit

We performed virtual site visits to evaluate the location and use of equipment and services for which the Beneficiary had requested funding to determine whether they were properly delivered and installed, located in eligible facilities, and used in accordance with the 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 the invoices that the selected Service Providers submitted to USAC for reimbursement and performed procedures to determine whether the selected Service Providers had properly invoiced USAC. Specifically, we reviewed invoices associated with the SPI Forms for the equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the SPI forms and corresponding Service Provider bills were consistent with the terms and specifications of

the selected 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 (2018)³ – Untimely Payment of Beneficiary’s Non-Discounted Share to Service Provider

Condition

The Beneficiary did not pay its non-discounted share for all services it received under FRN 1999018417 in a timely manner. We reviewed the selected Service Provider bills and the Beneficiary’s check payments and noted four instances in which the Beneficiary did not make payments within 90 days of receiving the services, as required by the FCC Rules, as follows:

Payment Date	Invoice Date	Amount
November 2, 2020	July 13, 2020	\$3,728
October 15, 2020	July 7, 2020	\$4,421
October 15, 2020	July 7, 2020	\$3,375
October 5, 2020	June 25, 2020	<u>\$4,136</u>
Total		<u>\$15,660</u>

Cause

The Beneficiary did not have adequate policies, controls and procedures in place to ensure the timely payment of the Service Provider bills. Specifically, the Beneficiary stated that, due to the Coronavirus Disease 2019 (COVID-19) pandemic, it experienced office closures that led to delays in obtaining electronic approvals and routing invoices for payment. As a result, the Beneficiary was unable to pay its non-discounted share of the invoices within the required 90-day threshold.

Effect

There is no recommended USAC recovery for this finding, as the Beneficiary 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.

Recommendation

We recommend that the Beneficiary implement policies, 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 the FCC Rules.

³ See also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd 15808, 15816, para. 24 (2004).

Beneficiary Response

Los Angeles Unified School District (District) has reviewed the finding noted in the report for services received under FRN 1999018417 and partially disagrees with the report's statement regarding the cause of the non-discounted share being paid in a non-timely manner. Specifically, the District does not agree that "The Beneficiary did not demonstrate sufficient knowledge of the Rules governing timely payment of the non-discounted share of billed services." The District is aware of the rules regarding timely payment of the invoices. As clarified during the audit, these were unusual circumstances for the District. The payments being issued after 90 days were caused by changes in normal invoice review and payment practices due to COVID-19 office closures. District staff worked remotely from home, and the process of obtaining electronic approvals and routing invoices for payment was subsequently delayed. As a result, the District was unable to pay its non-discounted share of the four invoices within the required 90-day threshold. The District notes that three of the invoices were paid within 10 to 12 days after the 90-day deadline. Even with the unprecedented challenges and hardships faced by the District during the COVID-19 pandemic, the District still managed to pay the invoices within a reasonable period after the 90-day deadline. The District has also since made adjustments to the invoice review and payment process being administered remotely by staff to ensure timely payments.

Auditor Response

Based on the Beneficiary's response above, we updated the Cause to more accurately reflect the reason for the finding. However, because the Beneficiary noted that it did not ensure that it paid the non-discounted share of the costs of E-Rate eligible equipment and/or services in a timely manner, our position regarding the finding does not change.

Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235⁴ – Service Provider Billed the Beneficiary for the Discount Share of Services

Condition

One of the Beneficiary's Service Providers, AT&T Corporation (AT&T), billed the Beneficiary for the discounted share of service costs on the bills tested for which the Beneficiary chose the SPI invoicing method. Under the SPI method, service providers bill the beneficiary for the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the discounted share of eligible services. The beneficiary is only responsible for paying service providers its non-discounted share, plus the cost of any ineligible services. However, throughout FY 2019, the Service Provider billed the Beneficiary for the full pre-discount cost of FRN 1999054400 before seeking reimbursement from USAC for the discount amounts, rather than only its 10 percent non-discount share (plus the cost of ineligible services). The Service Provider applied the E-Rate credits to the Beneficiary's bills after FY 2019 had ended.

⁴ See also *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order FCC 97-157, para. 586 (1997), and *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Future Notice of Proposed Rulemaking (FNPRM), FCC 03-101, paras. 44, 46-47 (2003).

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure that it obtained and processed the information necessary to calculate discounts on a timely basis. Specifically, the Service Provider requires that beneficiaries complete a Grid document with the details of the E-Rate funding for each FRN before it applies discounts on the applicable bills. However, it did not have procedures to obtain the Grid document from the Beneficiary as soon as it received USAC's FCC Form 486 Notification Letter, confirming that services approved for discounts had started.

Effect

As a result of the above-described use of the SPI method, the Service Provider initially collected more than the discount amount and risked ultimately charging the Beneficiary for more than the non-discounted amount for the services. While this practice may not always result in over-collection by the Service Provider, such as, for example, when the Service Provider credits the Beneficiary in a timely manner, it does increase the Service Provider's risk of violating FCC rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Provider ultimately applied E-Rate credits to the Beneficiary's bills. However, we note that the Beneficiary was entitled to a 90% discount rate and may experience cash flow issues if the Service Provider continues to bill for the entire pre-discount amount under the SPI method or fails to credit its bills in a timely manner.

Recommendation

We recommend that the Service Provider implement policies, controls and procedures to obtain and process FRN funding details so that it can apply discounts to its bills on a timely basis and ensure the Beneficiary is billed only for the non-discount share, plus the cost of ineligible services.

Service Provider Response

Refer to *Attachment A* for the Service Provider's response.

Auditor Response

Based on AT&T's response, we made the following changes to the other matter:

- We revised the Condition to state that the Beneficiary elected to use the SPI method, not AT&T as previously stated.
- We modified the Cause to indicate that, because the Beneficiary had not supplied the Grid, AT&T did not have enough information to calculate and apply the discounts on its FY 2019 bills.
- We modified the Recommendation to address the need for AT&T to implement controls and procedures for obtaining FRN funding details on a timely basis.

As FCC Rules clearly state that there is increased risk that beneficiaries could overpay for E-Rate eligible services and could experience cash flow issues when a service provider requires

them to pay the nondiscounted costs of eligible equipment and service under the SPI method, we did not modify the Effect based on the Service Provider’s response.

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>
	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd. 15808, 15816, para. 24 (2004)</i>	<i>While our rules do not set forth a specific timeframe for determining when a beneficiary has failed to pay its non-discounted share, we conclude that a reasonable timeframe is 90 days after delivery of services. Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services. . . . Accordingly 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>

Other Matter	Criteria	Description
1	<i>Modernizing the E-Rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 235 (2014)	<i>We take this opportunity to reiterate that E-rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.</i>
1	<i>Federal-State Joint Board on Universal Service</i> , CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997)	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.</i>

1	<p><i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 44, 46-47 (2003)</i></p>	<p><i>We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted services may be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, i.e., between receiving either reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place. In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the Universal Service Order that 'requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.' . . . In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i></p>
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Attachment A: Service Provider Response

AT&T asserts that these Criteria do not support the audit findings. Since the Modernization Order cited here was released in 2014, AT&T has not been aware of any interpretation of that Order which would affect the way it handles SPI billing with its customers – until now. In fact, between September 2020 and now, USAC has reviewed 389 invoice line items submitted via the SPI method for the AT&T Corp. SPIN, and in none of those reviews has USAC made any finding like the one that is being made now. Clearly, we are surprised to learn of this interpretation by USAC now.

Other Matter	Criteria	Description	AT&T Notes
1	E-Rate Modernization Order (FCC 14-99), at para.235	<i>Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.</i>	<p>For context, Para.235 of the E-rate Modernization order is part of Section C, “Simplifying the Invoicing and Disbursement Processes”. This section was focused on – and addressed only the removal of service providers who would no longer serve as a pass-through for payment and would no longer be required to approve Form 472s. There was no indication of a change to the existing SPI methodology that the parties employ, either in the changes noted in Appendix A (later incorporated into the C.F.R.) nor in the guidance and training put out by USAC following the release of the order.</p> <p>Processes followed by AT&T here resulted in the applicant (LAUSD) paying only the non-discounted cost for the eligible services on which discounts were provided and submitted by AT&T via the Form 474 SPI process.</p>
	FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2	<i>I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by the Service Provider contain requests for universal service support for service which have been billed to the Service Provider’s customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal</i>	Nothing that occurred here with regard to LAUSD and the submission of the Form 474s by AT&T on this FRN make these certifications untrue. As stated above, AT&T first provided discounts to the Customer bills, and only then submitted requests for reimbursements via the SPI method.

Other Matter	Criteria	Description	AT&T Notes
		<p><i>service support by the fund administrator.</i></p> <p><i>I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by the Service Provider are based on bills or invoices issued by the Service Provider to the Service Provider's customers on behalf of schools, libraries, and consortia of those entities as deemed eligible for universal service support by the fund administrator, and exclude any charges previously invoiced to the fund administrator for which the fund administrator has not issued a reimbursement decision.</i></p> <p><i>I certify that the invoices submitted by the Service Provider to the Billed Entity are for equipment and services eligible for universal service support by the Administrator and exclude any charges previously invoiced to the Administrator by the Service Provider share.</i></p>	

AT&T takes exception with several of the statements outlined in the **Condition**.

The Condition states that “the Service Provider had elected to use the SPI method to obtain reimbursement for eligible services under FRN 1999054400 (funded at a 90 percent discount rate).” This statement is incorrect. It is not the Service Provider that makes this election, but it is the Applicant. See 47 C.F.R. § 54.514 (c).⁵

⁵ 47 C.F.R. § 54.514(c) *Choice of payment method*. Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, *permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full, undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.* (emphasis added.)

The Condition further states: “Under the SPI method, service providers invoice USAC directly for the discounted share of eligible services and bill beneficiaries for the non-discounted share of the services. However, the Service Provider billed the Beneficiary for the total cost of the services provided under this FRN each month, rather than for the 10 percent non-discounted share of the costs. The Service Provider did not credit the Beneficiary’s bills for amounts received from USAC until after the Beneficiary had already paid the total cost of the services.”

AT&T takes issue with these statements because they suggest that AT&T may have overcharged LAUSD or that LAUSD was at risk of paying more than its non-discounted share. AT&T did not overcharge LAUSD, and LAUSD was not at risk for paying more than its non-discounted share of the costs for eligible services for which discounts were applied. While LAUSD’s funding application was pending approval, AT&T charged LAUSD for the total cost of the services contracted and purchased by LAUSD each month, including the services funded in LAUSD’s FRN: 1999054400, and as per longstanding procedures of which USAC is aware. See, e.g., Attachment: **4.7.14 CC Docket No. 13-184 ATT Comments** below. But once USAC approved the funding and LAUSD took all the necessary steps to receive the discounts, including but not limited to submitting the Form 486 to USAC and completing and submitting the AT&T Grid information⁶ (See the Welcome Letter and Grid document attached below) to AT&T, AT&T applied the discounts to LAUSD’s bills related to FRN: 1999054400 applicable to Funding Year 2019.

AT&T is not alone in handling the SPI method of billing this way. Like most other Service Providers, AT&T does not reflect discounts on the customers’ bills until *after* the funding has been approved and the necessary steps outlined above have been taken by the Applicant. At that time, AT&T calculates the applicable discounts back to the Form 486 effective date per the Form 486 Notification Letter received from USAC. AT&T refers to these initial discounts reflected on the invoice as the “retroactive period”. Subsequently, discounts will apply monthly on a going forward basis until the Contract Expiration date or until the end of the funding year.

In this instance with LAUSD, the reason the discounts may have been applied later in time than they otherwise might have been is due to the following circumstances. First, FRN: 1999054400 was not approved by USAC until 9/1/2019, which was 2 months after the funding year began. At some point LAUSD filed a Form 486, as required by the E-rate rules, for which AT&T did not receive the 486 Notification from USAC until 1/5/2020. Finally, as set forth in AT&T’s Welcome letter (See Attachment: **LAUSD WelcomeLetter1999054400** below), AT&T requires its SPI customers to complete a “Grid” document and certify to AT&T that the information in the “Grid” is accurate. AT&T sent the Grid request to LAUSD on 9/5/2019. But LAUSD did not complete the Grid information until near the end of the Funding Year. (See Attachment: LAUSD

⁶ The AT&T Grid document is a document that applicants must complete for AT&T to provide the details of the Applicant’s E-rate funding, such as, the Billing Account Numbers which bill for the services that should be discounted, and the applicable discount percentage based on cost allocation required. AT&T cannot apply E-rate discounts on bills until the customer verifies the details of their funding approval by submitting the Grid. For large customers like LAUSD, this process is critical to ensure the discounts are applied to the service for which the applicants was approved. The instructions for completing the Grid are contained an email AT&T sends to customers upon notification of funding, known as the Welcome Package.

Online Grid 2019 below). Once received, AT&T calculated and provided the requisite discounts to LAUSD prior to submitting the first Form 474 SPI to USAC in October of 2020.

The bottom line is that, AT&T, like other Service Providers, would not and should not have to cover LAUSD's or any customer's service expenses by applying earlier discounts for the non-discounted share (i.e. "float" the customer) before the customer's funding was approved by USAC and the other necessary steps (including the submission of the Grid document) were taken. Indeed, it is not possible for a Service Provider to provide discounts for services at the time of commencement of services because the Service Provider does not even know at that time what services are eligible for discounts. Put differently, AT&T could not have applied discounts to services in July because AT&T would not have known in July exactly what services needed to be discounted. AT&T's process – explained in its Welcome Package – requires applicants to identify the discounted services. Subsequently, AT&T reimburses applicants after they provide AT&T the information.

Finally, it should be noted that there was no actual harm in this situation because LAUSD was ultimately only responsible to pay their undiscounted share of the eligible services for which it received discounts as well as any ineligible services billed on the same billing account numbers.

The **Effect** section states that "Beneficiary is at risk of paying more than its non-discounted share of the costs for eligible services if the Service Provider does not invoice USAC for all eligible costs. In addition, the Beneficiary may experience cash flow issues if the Service Provider does not invoice USAC and credit the Beneficiary's bills on a timely basis."

First, to be clear, AT&T did not overbill LAUSD for the discount portion of the cost of services. Moreover, the comments about the Beneficiary being at risk of paying more than its non-discounted share or that the Beneficiary may experience cash flow issues are speculative comments and not based in fact. The E-rate rules do not dictate how a school or library elects to pay the bills rendered by the Service Providers. Under the rules, schools and libraries are required to have the necessary resources at the time of filing the FCC Form 471, and they must pay their non-discounted share. See **47 C.F.R. § 54.504**.⁷

⁷ 47 C.F.R. § 54.504 *Requests for services*.

- (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. (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:...(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).

It has been the experience of AT&T that LAUSD sometimes elects to pay their bills in full, even after discounts have been applied, resulting in a payment overage which is reflected on the bills as a credit balance. LAUSD will then request a refund for the overpayments it chose to make. Why LAUSD chooses to behave this way is unknown to AT&T, but we suspect it is because LAUSD likes to receive one large check toward the end of the funding year akin to receiving a BEAR payment if filed only once at the end of the year.

But LAUSD cannot choose the BEAR method because it would forfeit funds that it is eligible for under the California Teleconnect Fund (CTF) program.⁸ Under this program, schools and libraries in California can receive additional funding for their services directly from the State. The CTF Program requires that participants who qualify for E-rate utilize the SPI method for their E-rate funding in order to receive the CTF discounts. LAUSD participates in the CTF program, and therefore it cannot use the BEAR method invoicing, which they would seem to prefer. LAUSD's inability to use the BEAR method may be a driving factor on LAUSD's decision to procrastinate in completing all the necessary steps to receive discounts on their bills earlier in the Funding Year since by doing so they would – in effect – be using the BEAR method. Indeed, there is no rule to restrict Beneficiaries from this practice of paying more than is currently owed or delaying the submission of required documents.

The **Recommend** section states that “We recommend that the Service Provider implement controls and procedures to ensure it only bills the Beneficiary for the non-discounted share of costs for services reimbursed under the SPI method.”

First, AT&T does have controls and procedures to ensure that the Beneficiary is billed properly for their non-discounted share of eligible services by actually providing appropriate discounts to its bills for the approved eligible services – once all the necessary requirements have been met.

Furthermore, there are no requirements within the E-Rate program rules for Service Providers to initially bill only the discount portion before funding is approved.⁹ As was the case here, there are occasions when the Beneficiary's funding has not been granted prior to the beginning of the Funding Year. Certainly, the program rules do not mandate that AT&T must “float” a Beneficiary until funding is approved since funding may never be approved. Additionally, there

⁸ See <https://www.cpuc.ca.gov/ctf>. In California, the State has a program known as the California Teleconnect Fund (CTF) which provides additional discounts (50% for Schools and Libraries) for a Beneficiary's portion of eligible charges after E-rate discounts have been applied. The SPI method is required to receive these additional funds.

⁹ Indeed, the current direction provided by USAC to the Service Provider community in the SPI FCC Form 474 User Guide ([usac.org](https://www.usac.org)) instructs the Service Provider to enter the “Total (Undiscounted) Amount for Service per FRN” in Item (11). The specific instruction states: “Item (11) - Total (Undiscounted) Amount for Service per FRN. This item represents the total undiscounted monthly and one-time charges for all eligible services **on the individual invoice or bill issued to the customer**. This item represents the total price for eligible service before any eligible discount is applied. The total undiscounted amount may include all reasonable associated charges, such as federal and state taxes, that the customer incurs when they obtain services.”

Accordingly, this guidance makes it clear (to AT&T at least) that there is, and has always been, an understanding that the Service Provider is not required to include on the bill only those charges which are the applicants' non-discounted share.

are other required steps that both the Applicant and USAC must take prior to the invoicing process commencing, which are necessary in order for the discounts to be accurate (e.g., filing a Form 486, and submitting the Grid document). **See pages 3-6 of Attachment: 4.7.14 CC Docket No. 13-184 ATT Comments below.** It is therefore unreasonable to conclude that a Service Provider has somehow violated the program rules by waiting for these other steps to be completed.

Attachments:



4.7.14 CC Docket No.
13-184 ATT Comment



WelcomeLetterLAUSD
1999054400.docx



LAUSD Online Grid
2019.jpg

4.17.14 CC Docket No. 13-184

In the Matter of)
Modernizing the E-rate Program) CC Docket No. 13-184
For Schools and Libraries)
)

¹ *Wireline Competition Bureau Seeks Focused Comment on E-rate Modernization*, WC Docket 13-184, DA 14-308, released March 6, 2014 (“Public Notice”).

funds necessary to acquire broadband services.² By creating a separate fund for infrastructure deployment, the FCC could ensure that schools and libraries that currently are unserved or underserved by broadband have the necessary funding to acquire broadband services.

Furthermore, as AT&T stated previously, whatever approach the Commission implements to prioritize broadband connectivity to schools and libraries, the program must be administered with technology neutral principles.³ The Public Notice seeks comment on the scope of services that should be funded to provide high speed broadband, both to and within schools and libraries, and goes so far as to request comment on what specific equipment is necessary to transmit broadband throughout buildings. The Commission's approach here is too narrow. Because of significant geographical and topographical diversity among the nation's schools and libraries, there is no one technological solution that will best meet the needs of all such institutions. Consequently, fiber, wireless LTE, hybrid copper/fiber, and satellite, should all be among the available technology platforms that are permitted to compete for schools and libraries' broadband connectivity requirements.

Several commenters suggest that wireless data should not be eligible based on their perception of current costs.⁴ However, this is not a sufficient basis to bar a viable service from competing with other platforms to achieve the program's broadband goals. Indeed, LTE service may provide the lowest-cost broadband solution for high cost areas and provides the additional benefit of positioning E-rate applicants for mobile learning applications. (*See* Section V below).

² *See* Comments of AT&T, filed in WC Docket No. 13-184 on September 16, 2013 at p. 4.

³ *Id.* at p. 4-5.

⁴ *See* E-rate Provider Services Comments filed in WC Docket 13-186 on September 16, 2013 at p. 7; *See generally*, Reply Comments Of The Fiber To The Home Council Americas, filed in WC Docket 13-186 on November 8, 2013.

Just as the Commission should allow market forces to dictate which technology represents the best solution for a given school or library, so, too, should it allow flexibility in the choice of equipment and software that can be used to deliver the broadband service throughout the campus or building(s). Here, again, the competitive bidding process will identify which equipment and software represent the best, most cost-effective solution for any particular school or library, and building flexibility into the process will enable schools and libraries to access the latest, most cutting edge technology solutions. In contrast, any list of Commission-approved equipment will be obsolete before the ink is dry on the order approving that list. To avoid this pitfall and to maximize the options available to schools and libraries, the Commission should establish standards that enable and facilitate the purchase of high-speed broadband both to and within schools and libraries, and allow the schools and libraries, using the applicable competitive bidding requirements, to select the most cost-effective solution from all of the available technologies and architectures.

II. The Commission Should Include All Aspects of the E-rate Process In Its Streamlining Review.

The Commission also seeks comment on how to minimize the administrative burdens and overhead associated with applying for and receiving funding. AT&T agrees that there are opportunities to streamline the administration of the E-rate program, e.g., eliminating service providers from the BEAR disbursement process as proposed in the NPRM. But the downstream processes that are essential for applicants receiving the benefit of the E-rate discount depend today on the availability of timely and accurate information. As a result, it is essential that, as the FCC reviews proposals to streamline the application process, it take into account the impact of those proposals on any downstream processes, and, in particular, on the information requirements for those processes.

The Commission must keep in mind that it takes far more than an Application and a Funding Commitment Decision Letter (FCDL) to make the E-rate program work. Both the invoicing and USAC's compliance processes are vital parts of the E-rate program, and the quality and efficiency of these processes are heavily dependent on the quality of information provided in the application process. Even today, much of the detailed information needed from the application process is frequently omitted by the applicants. For example the Service Provider Invoice (SPI) process, which includes not only invoicing USAC but also applying the E-rate discount on the service providers' bills, requires information that is requested on Item 21 of the Form 471, yet, applications are accepted and funding is approved without this necessary information. Other information, such as, billing account numbers, the Funding Request Numbers (FRNs) funded for each billing account number, and the discount percentages based on the eligibility of the services and/or locations, is likewise critical for the SPI process but is not even requested in the E-rate application process.⁵ Therefore, before discounts can be applied to bills, the service provider and applicants must undertake very time consuming and resource intensive verification processes, after the application is accepted and the FCDL is issued, to ensure that the service provider applies the correct discount and to ensure the discount is only applied to services included in the applicable FRN.⁶ While AT&T's SPI process ensures that AT&T applies the discounts correctly, the process often takes two to three months to complete, which delays the implementation of the discounts and the submission of the corresponding invoices to USAC.

⁵ Previous versions of the forms included information that helped facilitate these processes. For example, a previous version of the Form 470 included an Item 7 that required the applicant to provide the term requirements for the services being requested by indicating month-to-month, tariff, or multi-year.

⁶ See Attachment A – AT&T's E-rate Welcome package. AT&T requires applicants to complete these forms before AT&T implements the E-rate discount on its bills. Once complete, these spreadsheets can include hundreds of rows of information.

Some of the same information that is required for the SPI process, such as billing account numbers by FRN and discount calculation validation, is needed by USAC to complete its Program Integrity Assurance reviews, Payment Quality Assurance reviews or Beneficiary audits. AT&T is unable to respond to these requests on a timely basis (or at all), when applicants fail to provide the information in the SPI process or when applicants utilize the BEAR invoicing process (in which case, the Service Provider has no insight into the services or discount calculations that applicants may have used in their BEAR invoices). The requirement for these types of information must be addressed as the Commission considers any proposals to further streamline the program's processes.

III. The Commission Should Further Streamline The Funding Disbursement Process.

All the detailed information described above, and the effort and expense it takes to collect, verify, and audit the accuracy of that information, would not be necessary if E-rate funding was provided directly to schools and libraries rather than being funneled through service providers. The FCC has already proposed to send BEAR payments directly to applicants.⁷ It should take the next step and do the same with all E-rate funds and allow schools and libraries to use E-rate funds to pay their service providers directly.⁸

While putting a discount on a phone bill might have sounded simple and rationale in 1996, it is not at all simple when large schools districts are purchasing complicated multi-element services for numerous locations that generate bills hundreds of pages in length. The current SPI discounting structure imposes real costs on USAC as well as service providers.

⁷ See *Modernizing the E-rate Program for Schools and Libraries*, Notice of Proposed Rulemaking, WC Docket No. 13-184 (rel. July 23, 2013) at ¶ 259.

⁸ See Comments of AT&T at pp. 13-14.

Rather than hire more auditors to spend hours tracing the path of dollars and discounts from USAC to the applicant via the labyrinth of service provider bills and back again, the FCC could improve program compliance, significantly streamline the disbursement process and save money by taking service providers out of the middle of flow of E-rate funding.⁹

IV. The Commission Should Phase Out Funding for Voice Services.

As stated above, AT&T agrees that the Commission should refocus the E-rate program on supporting high speed broadband to and within schools and libraries, while eliminating support for services that do not advance the deployment of broadband, such as voice telephony services. The Public Notice seeks comment on ways to reduce support for voice services but does not distinguish TDM-based (telephony) voice service from voice over Internet protocol (VoIP) service for this purpose; so it is not entirely clear what is intended. AT&T suggests the Commission phase out support for telephony voice and VoIP services on different schedules. Specifically, AT&T suggests the Commission phase out telephony voice services on an accelerated schedule, e.g. three years or less, so that support for those services can be repurposed to supporting broadband. On the other hand, the program could support VoIP services for a longer transition period, e.g. five years, as a way of increasing incentives for schools and libraries to substitute broadband technologies for legacy technologies. Ultimately, AT&T agrees that voice services of all kinds should no longer be eligible for E-rate discounts.

AT&T does not have a preference for the methodology the Commission chooses to phase-out these services; however, if the Commission elects to gradually reduce the discount percentage for these services, it should consider how this change will impact service providers who have to accommodate the discount on their bills. For example, portions of AT&T's

⁹ Other processes would also benefit from this streamlined approach. For example, USAC's Good Samaritan disbursement process could be completely eliminated if it were permitted to provide funds directly to the applicants.

discount processes are mechanized and these systems can only apply one discount percentage for each FRN. Therefore, AT&T could accommodate a gradual reduction of the discount percentage for voice services on a mechanized basis but only if applicants obtain a unique FRN for any service that requires a different discount percentage.¹⁰

V. The Commission Should Fund Demonstration Projects If Applicants Demonstrate A Need.

The Commission also seeks comment on whether it should provide funding for demonstration projects aimed at identifying and testing different approaches to meet broadband needs.¹¹ AT&T generally supports demonstration projects or technology trials. However, given the limited resources currently available to the program, the Commission should set aside only limited funding for these initiatives and should ensure that these projects are well-defined and are focused on delivering broadband to and/or within schools and libraries, or off-campus for educational purposes. In addition, any projects must be limited in duration to ensure the results are shared on a timely basis so that others may benefit from the projects.

VI. The E-rate Program Should Support Off-Campus Mobile Learning.

Although the Public Notice did not seek comment on the eligibility of off-campus broadband access, AT&T urges the Commission to address the eligibility of off-campus mobile broadband connectivity as it transforms the eligible service list to refocus the program on broadband and optimize the educational benefit of broadband access. Today's educational systems increasingly require students to have access to information outside of the classroom to implement educational models such as blended learning, flipped learning and alternative school

¹⁰ This example demonstrates how a seemingly easy adjustment to the program could add significant administrative costs to service providers. The FCC could avoid these issues and reduce the compliance cost of the program by providing funding directly to schools and libraries, so they, in turn, can pay their service providers. (See *supra* Section III).

¹¹ Public Notice at ¶56.

formats. Thus, learning can no longer be confined within the walls of a school at specified times in the day. As a result, AT&T, as well as other providers, has developed methods to ensure school-owned mobile learning devices only have access to educationally appropriate content, a concern the FCC has raised in the past. With this issue behind us, E-rate support for off-campus wireless broadband access could almost instantaneously lessen the “digital divide” between students that have broadband Internet access at home and those that do not.

Indeed the evaluation results from the *Make Learning Mobile* projects indicate that student usage of mobile-broadband equipped tablets remarkably enhanced the learning experiences both on and off-campus. For example, the Falconer Elementary School report indicates that students did more online research, played more educational games, [and] communicated more with classmates and their teacher . . . than they had first envisioned.”¹² This evaluation also noted that “three-quarters of the device requests for access to learning or academic websites occurred between 3:00 pm and 9:00 pm.”¹³ Similarly, the Stone Middle School report indicates that homework completion rates increased, and students developed stronger research skills due to the accessibility of the tablets.¹⁴ Thus, there can be no question that off-campus mobile broadband access can serve an educational purpose that could dramatically improve educational outcomes. As a result, the Commission should permit E-rate funds to be used for off-campus mobile broadband connectivity.

¹² See Qualcomm Ex Parte, dated January 13, 2014 filed in GN Docket 09-51 and CC Docket No.02-6, Making Learning Mobile 1.0 – Falconer Elementary School Project Evaluation Results at p. 5.

¹³ *Id.* at p. 7.

¹⁴ *Id.* Making Learning Mobile 1.0 – Stone Middle School Project Evaluation Results at p. 7.

VII. CONCLUSION

As discussed above, the E-rate program's focus should be on broadband connectivity, and the Commission should ensure that all services and/or technologies that are capable of providing broadband connectivity to, within, and off-campus are eligible for E-rate funding.

Respectfully submitted,

/s/Terri L. Hoskins

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Its Attorneys

April 7, 2014

Dear Customer and E-Rate Applicant,

Welcome to the E-Rate Fund Year 2013. AT&T Ohio - Ohio Bell Telephone Company has received notification from the SLD that at least one FRN on your E-Rate Funding Application for SPIN 143001688 has been approved for Fund Year 2013 (which begins on July 1, 2013).

Attached to this email is the document that allows AT&T to timely process your requests for either BEAR (Billed Entity Applicant Reimbursement) or SPI (Service Provider Invoice) disbursements of your funding. Please take the time to read the attached instructions and indicate your choice of disbursement method on the certification page, then complete the appropriate section based on your selection.

Finally, we would like to remind you to submit the Form 486 to the SLD within the required time frame, as delays can impact your funding. The USAC does not provide any disbursement of funds until they have received and approved your Form 486. AT&T will therefore not provide discounts until receipt of the Form 486 notification letter from USAC.
<http://www.universalservice.org/sl/tools/forms/default.aspx>

For SPI method:

Before we can apply discounts on your E-Rate eligible services via the SPI method you must complete, sign and return the AT&T E-Rate SPI grid. You must list and assign the applicable FRN to each Billed Account Number, as well as provide the percentage of eligibility based on services and use of Billed Account Number. Each FRN must have a designated Billing Account Number in order for AT&T to properly calculate your discounts.

For BEAR method:

Please complete and return the section of the certification for BEAR requests. Failure to return the certification form indicating BEAR method with a designated payment address will result in the BEAR reimbursement payment mailed to the address listed on the Form 472 (BEAR) Notification Letter.

The designated payment address provided on the certification form **MUST match** the address from one of the following forms:

- Funding Commitment Decision Letter (FCDL)
- 486 Notification Letter
- Form 472 (BEAR) Notification Letter.

BEAR reimbursement payments will not be mailed to an address not listed on the above forms.

If you elect to submit a BEAR Form 472, we remind you that the SLD provides guidance to applicants to allow time for their Service Provider to process submitted BEAR forms. AT&T requires 5 business days for processing whether submitted online or by paper.

The SLD provides the ability to process your BEAR online which offers the following advantages:

- * System checks for errors and notifies you of missing or inconsistent data.
- * Invoice review process can begin soon after all required information is submitted online

* Receive by email a copy of the Service Provider notification of your BEAR filing

AT&T allows for use of the online BEAR system provided by USAC.

E-Rate Eligibility:

The eligibility or ineligibility of products or services for E-Rate funding is solely determined by the USAC/SLD and/or the FCC. AT&T makes no representations or warranties regarding such eligibility.

AT&T reminds our customers who are purchasing from State Contracts or other Master Buying Agreements negotiated by a third party to review and understand the terms and conditions required under that contract, including any administrative fees the contract may impose, which may be considered ineligible by USAC.

AT&T reminds our customers to deduct all ineligible charges from their BEAR Form 472 submissions.

The attached Certification Page identifies the two options described above and requires you to indicate your preference.

If you have any questions or concerns please feel free to contact the AT&T National E-Rate Service Center at 1-877-444-6944 between 8:00 AM and 7:00 PM E.S.T Monday through Friday.

AT&T looks forward to serving your telecommunications needs and providing you with World Class Service today and in the future.

Sincerely,
Customer Advocate, AT&T National E-Rate Center of Excellence
1-877-444-6944

AT&T E-Rate Home page: <http://www.att.com/erate>

SLD Home page: <http://www.sl.universalservice.org>

The following documents are attached:

Instructions
Existing Service List (Grid)
SPI/BEAR Certification Page
Growth Page

**This e-mail and any files transmitted with it are the property of AT&T, are confidential, and are intended solely for the use of the individual or entity to whom this e-mail is addressed. If you are not one of the named recipients or otherwise have reason to believe that you have received this message in error, please notify the sender at 1-877-444-6944 between 8:00 AM and 7:00 PM EST and delete this message immediately from your computer. Any other use, retention, dissemination, forwarding, printing, or copying of this e-mail is strictly prohibited.

Instructions for E-Rate Funding Year 2013 The Ohio Bell Telephone Company dba AT&T Ohio SPIN: 143001688 Below you will find instructions for completing the three attachments required by AT&T Ohio in regards to E-Rate Funding Year 2013. Attachments: Existing Services List, Growth Page, and SPI/BEAR Certification Page	
Existing Service List –Also Known as Grid- Required if the SPI Discount Method is selected.	
Header	The header information is populated for you and includes: Funding Year and Dates, Service Provider Name and SPIN, Applicant Name and Billed Entity Number. Please do not modify header information.
A Existing Service List (Grid)	Read the purpose of the Existing Service List (Grid).
B Voicemail Product	Read and understand the following, as noted in our letter to you in February of 2013. If AT&T Messaging voicemail products were sought on your 470/471 and approved please be advised that those services are no longer provided by Ohio Bell Telephone Company dba AT&T Ohio SPIN 143001688. Voicemail products and services are provided by AT&T Messaging, SPIN 143033845. AT&T Messaging voicemail products are administered by AT&T Messaging SPIN 143033845. If you have a funded FRN for SPIN: 143001688 that includes Voicemail, please contact USAC and inquire if the funding associated with any Voicemail charges, can be moved to a stand alone FRN through a SPIN change, FRN SPLIT.
Information requested	Content required
1.) Billing Telephone Number	Contains the Billed Telephone Number (BTN) as identified in our database for the above referenced SPIN, and/or a previous Existing Service List returned by you. a) Add additional eligible Billed Telephone Numbers for which you requested and received funding that are not included on the attached list. The format for the BTN must be 13 numeric or alphanumeric characters, which includes the 3 digit customer code. (no spaces, dashes or other characters) For example: 55R7771111222 b) Remove ALL Billed Telephone Numbers that are not eligible to receive E-rate benefits.
2.) Working Telephone # or Circuit ID	Contains the working telephone number (WTN) or Circuit ID as identified in our database for the above referenced SPIN, and/or a previous Existing Service List returned by you. a) Add additional eligible Working Telephone # or Circuit ID for which you requested and received funding that are not included on the attached list. The format for the WTN must be 10 digits (no spaces, dashes or other characters) For example: 5557771111 . The format of the circuits ID may contain up to 45 Alphanumeric characters (hyphens and period symbols are permitted, no spaces) For example: XXXX.000000..XX b) Remove ALL Working Telephone # or Circuit ID that are not eligible to receive E-rate benefits.
3.) FRN	Enter the FRN associated with each BTN/ WTN or Circuit ID listed in 1,2. The FRN(s) MUST correspond to the funding requested on your 471, Block 5, Item 21 attachment.
4.) Percent at which product is Eligible	Percent at which product is Eligible: Enter the Percentage for which the line is qualified to receive discounts under the program rules. If this service is only partially eligible, as defined by the SLD, or shared with an ineligible entity, please enter the percentage of eligible use (1-99). Caution! This percentage is not the same as the FRN discount eligibility percentage on your FCDL by the SLD. For more information call the SLD at (888) 203-8100 or visit the

	SLD website at http://www.sl.universalservice.org .												
5.) Class of Service	Not a required field. You can use this field to identify the class of service associated to the BTN/WTN or Circuit ID provided.												
6.) Notes	Use this field to respond to questions addressed by the National E-Rate Center of Excellence.												
Circumstances requiring Special Handling	<p>A. MULTIPLE FRN's / DIFFERENT 486 START DATES: If you have a Billing Telephone Number and/or Working Telephone Numbers that will be assigned to MULTIPLE FRN's for the 2013 funding year covering separate 486 Services Start Date and End Date you must create a duplicate entry of the BTN & WTN for each FRN funded. See Example Below Line 1 & 2: The Billing Telephone Number and Working Telephone Number were entered multiple times assigned to FRN 9876543 which was approved with start date of 7-1 thru 12-31 and the FRN 3456789 with start date 1-1 thru 6-30.</p> <table border="1"> <thead> <tr> <th>1.) Billed Telephone Number</th> <th>2.) Working Telephone Number</th> <th>3.) FRN</th> <th>4.) Percent at which product is Eligible</th> </tr> </thead> <tbody> <tr> <td>555777221122</td> <td>555777221</td> <td>9876543</td> <td>100</td> </tr> <tr> <td>555777221122</td> <td>555777221</td> <td>3456789</td> <td>100</td> </tr> </tbody> </table> <p>B. USAGE ONLY: If you have an FRN that is specifically for USAGE (Calls) that is different than the FRN intended for the products and services, please indicate this on the SPI/BEAR certification page in the Usage Only column and contact us for SPECIAL Handling @ 1-877-444-6944.</p>	1.) Billed Telephone Number	2.) Working Telephone Number	3.) FRN	4.) Percent at which product is Eligible	555777221122	555777221	9876543	100	555777221122	555777221	3456789	100
1.) Billed Telephone Number	2.) Working Telephone Number	3.) FRN	4.) Percent at which product is Eligible										
555777221122	555777221	9876543	100										
555777221122	555777221	3456789	100										

Growth-Additional Services Page -Required if the SPI Discount Method is selected and you received funding on products and services which you plan to have installed **after** returning the **Existing Service List** to the National E-Rate Center of Excellence. This form should also be used to identify accounts where you have received E-Rate funding on Non-Recurring charges related to the installation of products and services. You **MUST** contact the National E-Rate Center of Excellence @ 1-877-444-6944 and or submit a Growth Form after installation with the Billing & Working Telephone Numbers and corresponding FRN if the discount method is selected and you are expecting discounts on new services or non-recurring charges.

SPI/BEAR CERTIFICATION: Required if the SPI or BEAR discount method is selected. In this section you are being asked to identify how you would like to receive your E-rate Funding. Place a X in the BEAR or SPI fields. Note: If you submit a BEAR 472 Form to AT&T prior to returning this certification. The BEAR 472 form will be used as your certification.

By SPI method which is the discounted billing method. Note: Discounts will not begin until GRID is returned and a 486 Notification Letter is received.

By BEAR method if you would like your approved E-rate Funding to be provided via the BEAR reimbursement method. If this box is selected, please complete Section 11 and return to the E-rate center. List all FRNs for this SPIN for which you select the BEAR method of disbursement.

Once you have declared your preference, your E-rate Funding will be treated in this manner for the entire Funding Year once discounts begin.

	Information requested	Content required
1	Applicant Name	Enter the Applicant Name as is appears on your form 470

2	Contact Name	Enter the contact person in which AT&T should interact with to discuss questions related to your discounts.
3	Contact Title	Enter the title of the contact person.
4	Contact Phone #	Enter the phone number of the contact person.
5	Contact Email Address	Enter the email address of the contact person.
6	Disbursement Method	Please provide all of the requested information for all FRN's listed on your returned Existing Services List.
7	Certification	Read and understand certifications re: FRN and Eligibility designations
8	Authorized Contact Signature	Signature of Authorized Contact
9	Authorized Contact Title	Title of Authorized Contact
10	Date	Date Signed
11	Designated Payment Address (BEAR ONLY)	Failure to return the certification form indicating BEAR method with a designated payment address will result in the BEAR reimbursement payment mailed to the address listed on the Form 472 (BEAR) Notification Letter. The designated payment address provided on the certification form MUST match the address from one of the following forms; • Funding Commitment Decision Letter (FCDL) • 486 Notification Letter • Form 472 (BEAR) Notification Letter. BEAR reimbursement payments will not be mailed to an address not listed on the above forms

Please return the completed forms as follows
Existing Service List: return the completed form in Excel format via email to snowerock@att.com
Growth Page: return the completed form in Excel format via email to snowerock@att.com
SPI/BEAR Certification Page: return the signed and completed form in PDF format via fax to 1-888-308-7186.

via Email (Preferred Method): snowerock@att.com
via US Mail:
AT&T National E-Rate Center of Excellence Spin 143001688
444 Michigan Av. Flr 2
Detroit, MI 48226
via FAX: 1-888-308-7186

If you would like on-line assistance in completing this information please contact the National E-Rate Center of Excellence at 1-877-444-6944.
Thank you for choosing **AT&T Ohio** as your E-Rate provider.

<p style="text-align: center;">E-Rate Year 2013 (YR 16) (07/01/2013 through 06/30/2014)</p>					
<p style="text-align: center;">Service Provider Selected: The Ohio Bell Telephone Company dba AT&T Ohio SPIN: 143001688</p>				<p style="text-align: right;">COUNT :</p>	
<p>Applicant Name: _____ Billed Entity Number: _____</p>					
<p>A. This Existing Services List is the Applicant's representation to AT&T Ohio regarding the Billed Telephone Numbers, FRNs and Eligibility percentages of the services listed below. AT&T Ohio will rely upon these representations in the calculation of discounts. The Applicant is solely responsible for the accuracy of this information. Please return this completed form with the "signed" certification page.</p>			<p>B. If AT&T messaging voicemail products were sought on your 470/471 and approved, please be advised that those services are no longer provided by Ohio Bell Telephone Company dba AT&T Ohio SPIN: 143001688, and no discounts will be provided under this SPIN. Voicemail products and services are provided by AT&T Messaging, SPIN 143033845. See Instructions for more information.</p>		
1.) Billed Telephone Number	2.) Working Telephone Number or Circuit ID	3.) FRN	4.) Percent at which product is Eligible	5.) Class of Service	6.) Notes

Welcome Letter LAUSD 1999054400

Dear LOS ANGELES UNIFIED SCHOOL DISTRICT,

Welcome to the E-Rate Fund Year 2019. AT&T has received notification from the SLD that the FRN listed below for SPIN 143001192 has been approved for Funding Year 2019.

Funding Request Number (FRN): 1999054400

*Personal Identification Number (PIN): c526D3Bw

* Your PIN is required to access the online AT&T E-Rate Customer Account Profile described below. Please do not discard.

E-Rate Method of Disbursements

1. BEAR (Billed Entity Applicant Reimbursement) Form 472
2. SPI (Service Provider Invoice) Form 474

Disbursement Option Description and Instructions:

1). For the BEAR (Billed Entity Applicant Reimbursement) method

We encourage our customers to create an internal grid or list of billing accounts applicable to each of their FRN's on which they intend to utilize BEAR. This will be extremely helpful in keeping your funding request records organized, and in responding to any audits that the SLD may conduct.

It is important to understand that once you choose a disbursement option for a given FRN and use that method, E-Rate rules require you to submit all of your disbursement requests using this method for that FRN. The SLD requires that all requests for that FRN use the same method for the remainder of the funding year.

DO NOT SUBMIT A REQUEST FOR SPI DISCOUNTS IF YOU INTEND TO USE BEAR.

2). For the SPI (Service Provider Invoice) discount method

Before discounts are applied to your E-Rate eligible services via the SPI method you must complete and submit an AT&T E-Rate Customer Account Profile "Grid" for each FRN, based on your billing structure. The Grid provides necessary information we must have to apply E-Rate discounts to your bills. You must list and assign the applicable FRN to each Billed Account Number. In addition, to properly cost allocate your discounts, you must provide the eligibility percentage based on service eligibility (where required), location and/or use of the services billed on each Billing Account Number. You will need to use the initial logon Personal Identification Number (PIN) we have provided to access the AT&T online E-Rate Customer Account Profile located at the website provided in the instructions below.

ACTION REQUIRED if selecting SPI method:

- Submission of the Customer Profile for SPI method for FY2019 is available starting 7/1/2019.

AT&T E-Rate Customer Profile "GRID" MUST BE RECEIVED 120 DAYS PRIOR TO THE FRN INVOICE DEADLINE. AT&T CANNOT ACCEPT YOUR REQUEST FOR DISCOUNTS VIA THE SPI METHOD AFTER JUNE 30TH FOR FRN's WITH THE STANDARD LAST DATE TO INVOICE (L.D.T.I.) (TYPICALLY: OCTOBER 28th). IF YOUR FRN HAS AN EXTENDED L.D.T.I., YOUR REQUEST FOR SPI DISCOUNTS MUST BE RECEIVED 120 DAYS PRIOR TO THE L.D.T.I. ANY REQUEST RECEIVED AFTER THIS DATE WILL NOT BE PROCESSED AND THE BEAR METHOD MUST BE USED.

We remind you to timely submit the Form 486 for each FRN. Delays can impact your funding. AT&T does not provide discounts via the SPI method prior to receipt of a complete and certified Grid and acknowledgement that the SLD has approved the filed Form 486. *Payment is due in full until discounts begin.

Upon successful entry of your Customer Account Profile, you will receive an email containing instructions on receiving discounts via the SPI method. If discrepancies are identified on your Customer Account Profile, you will be contacted by the AT&T National E-Rate Center of Excellence office.

E-Rate Customer Account Profile

Access the following URL: <https://www.erate.att.com/art/index.cfm> (available for FY2019 starting 7/1/2019)

What you will need:

Billed Entity Number (BEN)

FRN

Funding Year

PIN contained above in this letter

Billing Account Number(s)

* Mailing address for any disbursements

Email address

AT&T will rely upon your representations regarding the Billing Account Number(s) associated to each FRN. The Applicant is solely responsible for the accuracy of this information provided in the profile. The other items on the AT&T E-Rate Customer Account Profile will be pre-populated with the information gathered from your Funding Commitment Decision Letter.

If you do not have access to the Internet or would like a paper copy of the AT&T E-Rate Customer Account Profile sent to you, please contact the AT&T National E-Rate Center of Excellence Office 1-888-364-3317 or via email at erate.legat@att.com. Please specify if you would like your copy emailed or faxed.

ADDITIONAL INFORMATION AND NOTICES:

VOICE SERVICES NO LONGER E-RATE ELIGIBLE

The portion of circuits dedicated to voice are no longer eligible for E-Rate funding.

- Circuits wholly dedicated to voice such as PRI and SIP trunks are fully not eligible.
- A T-1 channel used for voice is no longer eligible.

If there is a voice application running over a data circuit with no portion of the circuit dedicated to voice (e.g. QoS), the circuit remains fully eligible.

CALIFORNIA CUSTOMERS APPROVED FOR CALIFORNIA TELECONNECT FUND: As a reminder, you may also be eligible to receive discounts from the California Teleconnect Fund (CTF) which is the State of California Discount Program. On May 27th, 2004, the California Public Utilities Commission (CPUC) passed Resolution T-16763. This Resolution clarifies for applicants and carriers that to be eligible to receive CTF discounts, the Discount Method of reimbursement must be used when applying for E-Rate funding. The Discount Method involves the carrier invoicing the SLD for discounts previously provided by the carrier to the customer. The CPUC determined that the Discount Method is necessary because it helps ensure that carriers have accurate information regarding E-Rate discounts when applying for CTF discounts. The CPUC found that the Billed Entity Applicant Reimbursement (BEAR) process, commonly used in other states for E-Rate funding, does not provide the same level of information to carriers and thereby complicates the CTF process. **IMPORTANT—** You are solely responsible for selecting the appropriate reimbursement process for your entity and for advising AT&T of your intentions to apply for CTF discounts. Failure to do so may result in improper CTF discounting, which may have to be reported to the California Public Utilities Commission.

The options available to you are as follows:

- If you will be applying for CTF discounts on services provided by AT&T-California, the Discount Method of reimbursement for E-Rate funds must be used to retain your CTF discounts.
- If you will not be applying for CTF Discounts, you may select the Discount Method or the BEAR process for reimbursement of E-Rate funds.

If you are a CTF participant and elect the BEAR process, you must advise AT&T of the Accounts you are requesting disbursements against prior to submitting your Form 472 to USAC. AT&T-California will debit your accounts for any CTF discounts provided prior to your BEAR submission for that funding year.

OPEN INTERNET NOTICE: AT&T High Speed Internet Service (referred to as "the Service") is composed of narrowband or broadband access to Internet and offers you a capability for acquiring or retrieving information from; generating, storing, transforming, processing, or utilizing information on; or making available information to other Internet end points connected directly or indirectly to AT&T's network. For more information about how AT&T helps transmit your information to points on the Internet, how AT&T manages the Network, broadband options, including different service capability and expected and actual speed ranges, device attachment rules, activities which may impair or degrade your internet experience and for additional information regarding network practices with respect to data usage caps related to AT&T Broadband Internet access services, please visit www.att.com/broadbandinfo

STATE CONTRACTS: E-Rate rules allow for the use of State Master Contracts. Please review the guidance on State Master Contracts on the Schools and Libraries Division website at: <http://usac.org/sl/applicants/step02/state-master-contracts.aspx>

Please be advised that if you are an E-Rate eligible customer and are buying E-Rate eligible AT&T data services through an AT&T Service Guide or Tariff on a month-to-month basis without a term contract, a lower price may be available to you if you instead purchase those services under a term contract either from AT&T or directly from the State under a State contract for those services.

ADMINISTRATIVE FEES: AT&T reminds our customers who are purchasing from State Contracts or other Master Buying Agreements negotiated by a third party to review and understand the terms and conditions required under that contract, including any administrative fees the contract may impose, which may be considered ineligible by USAC.

Need 1 Gigabit FTTP Internet Access?

AT&T is pleased to inform you that we are expanding our fiber-based Internet Access services into new areas every day. AT&T may have an FTTP Internet Access service with high-broadband capacity, including 1G in your area. If you would like to learn more about the availability of this service, please visit www.att.com/internetinfo and complete the requested information. Reminder: All services must be competitively bid in accordance with program rules.

DOCUMENT RETENTION: The E-Rate program has explicit document retention requirements. Please retain copies of the bids you receive as well as contracts and bills per program rules. Requests for duplicate copies of bills may require a charge.

NEED MORE INFORMATION ABOUT

- E-Rate Program Rules and Process: SLD Home page: <http://www.usac.org/sl/default.aspx>
- For a List of Contacts by SPIN: http://www.sl.universalservice.org/Forms/SPIN_Contact_Search.asp
- AT&T's E-Rate solutions, processes and contacts @ : <http://www.corp.att.com/erate/>
- California Teleconnect Fund Program: <http://www.corp.att.com/erate/cts/index.html>

AT&T looks forward to serving your telecommunications needs and providing you with World Class Service today and in the future. If you have any questions or if any changes are required to your Customer Account Profile please contact the AT&T National E-Rate Service Center at erate.lett@att.com or at 1-866-829-8184 between the hours of 8:00 AM and 5:00PM (CST) Monday through Friday.

*Does not apply where payment arrangements have been negotiated as part of a contract.

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LAUSD Online Grid 2019

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BEN: 144454
FRN: 1009054405
Funding Year: 2019
PEN: C52603BW
Applicant: LOS ANGELES UNIFIED SCHOOL DISTRICT
Contact Name: James Adler
Address: 333 S BEAUFORT AVE
City: LOS ANGELES
STATE: CA
ZIP: 90017
Phone: 213-241-1222
FAX:
NRC/Usage CAP: 621,102,541.94
NRC Indicator: Yes
NRC CAP: \$0.00
471 Application #: 191015722
48G Start Date: 7/1/2019
Contract Expiration Date: 3/24/2023
Total NRC Disbursed: \$0.00
Total NRC/Usage Disbursed: \$10,425,439.16
Total Disbursed: \$10,425,439.16
LogT GRID Status: Approved
Non LogT GRID Status: NO
Last Date to Invoice: 25-Jun-21
Customer Log: [view customer log](#) (Last entry on 6/06/2021 at 05:28 PM)

SPIN:
LCP Active: ☒ Yes ☐ No
Received 48G Status: ☒ Yes ☐ No
Discount %: %
Non Recurring Charges: ☒ Yes ☐ No
Pre-Discount Non Recurring Amount:
Contract Expiration Date:
48G Start Date:
FRN Status:
Email Address:

Billing Points: use GRID to edit

Account Number	Product	Approved	EARF Eligible	EARF Requested	UR Eligible	UR Requested
0201050457		Yes	No	No	No	No
8210009500720		Yes	NO	NO	YES	YES

Customer Notes	GRID Notes	Comments
13-JUN-20 / 04:47 PM 0201050457 will be discussed out of FAST; invoice will be pulled and sent to Angela for manual invoice to customer. Check will be mailed directly to customer.	13-JUN-20 / 04:49 PM 0201050457 will be discussed out of FAST; invoice will be pulled and sent to Angela for manual invoice to customer. Check will be mailed directly to customer.	There are currently no Comments.

INFO Item: Audit Released May 2025

Attachment E

7/28/2025

Attachment E

SL2022LR002

Bakersfield City Elementary School District

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

USAC Audit No. SL2022LR002

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 Billed the Beneficiaries for the Discounted Share of Services5

EXECUTIVE SUMMARY

June 27, 2023

• Mr. Mark Luque, Superintendent
Bakersfield City Elementary School District
1300 Baker St.
Bakersfield, CA 93305-4326

Dear Mr. Luque:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Bakersfield City Elementary School District (Beneficiary), Billed Entity Number (BEN) 143936, using regulations and orders governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the FCC Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on a limited review performance audit

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

Based on the test work performed, our examination did not disclose any areas of non-compliance with the FCC Rules that were in effect during the audit period. However, our examination disclosed one other matter (Other Matter) discussed in the Audit Result and Commitment Adjustment/Recovery Action section. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary's and USAC Management's attention.

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

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

Sincerely,



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

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

AUDIT RESULT AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Result	Monetary Effect and Recommended Recovery
Other Matter: First 2014 E-Rate Order, FCC 14-99, para. 235 – Service Provider Billed the Beneficiaries for Discounted Share of Services. The Service Provider billed the Beneficiary 100 percent of the cost of services, instead of the non-discounted portion, as required by the SPI method.	\$0
Total Net Monetary Effect	\$0

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 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 Invoicing Process: Office Hour Webinar, July 21, 2022)
- <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 Service Provider is currently subscribed to the E-Rate weekly News Brief. USAC encourages the Service Provider to review the News Brief, which contains valuable information about the E-Rate program.

PURPOSE, SCOPE, BACKGROUND, AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for Funding Year 2020:

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$462,159	\$383,882
Internal Connections	\$191,767	\$41,561
Total	\$653,926	\$425,443

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

The committed total represents three FCC Form 471 applications with six Funding Request Numbers (FRNs). AAD selected four of the six FRNs,¹ which represent \$615,858 of the funds committed and \$413,063 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2020 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a school district located in Bakersfield, California that serves over 30,000 students across 44 schools.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the E-Rate program. AAD obtained and examined documentation to determine whether it supported the Beneficiary's effective use of funding and ensured that adequate controls existed to determine whether funds were used in accordance with the FCC Rules. AAD conducted inquiries and performed direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which funding was requested. AAD also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

B. Competitive Bidding Process

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

¹ The FRNs included in the scope of this audit were: 2099040590, 2099048191, 2099040574, and 2099048145.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

OTHER MATTER

Other Matter: First 2014 E-Rate Order, FCC 14-99, para. 235 - Service Provider Billed the Beneficiaries for the Discounted Share of Services

CONDITION

AAD obtained and examined the Service Provider's (Pacific Bell Telephone Company) bills to determine whether the Service Provider only billed the Beneficiary for the non-discounted portion of the bills, plus any ineligible services. The Service Provider billed the Beneficiary throughout Funding Year 2020 for services reimbursed by USAC under the Service Provider Invoice (SPI) invoicing method.² Specifically, the Beneficiary elected to be reimbursed for E-Rate support for FRN 2099040590 by SPI method at a 90% discount rate.

Under the SPI method, service providers bill the Beneficiary for the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the discounted share of eligible services. Beneficiaries are only responsible for paying service providers for its non-discounted share, plus the cost of any ineligible

² *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order); 47 C.F.R. § 54.504(f)(4).

services.³ However, the Service Provider billed the Beneficiary for the entire monthly cost of services provided during the audited funding period July 2020 – June 2021 for FRN 2099040590 totaling \$353,077, rather than only its non-discount share (plus the cost of ineligible services) for \$22,964. AAD noted that for the July 2020 – January 2021 bills the Service Provider applied the E-Rate credits to the Beneficiary's February 2021 bill and for the February 2021 – June 2021 bills the Service Provider applied E-Rate credits to the Beneficiary's subsequent monthly billing period.

CAUSE

The Service Provider did not demonstrate sufficient knowledge of the FCC Rules establishing the SPI method process and did not have adequate controls and procedures to ensure that the Beneficiary is billed only for the discounted costs approved by USAC.⁴

EFFECT

As a result of the above-described improper use of the SPI method, the Service Provider may initially collect more than the discounted amount and risk ultimately charging beneficiaries more than the non-discounted amount for the services. While this does not guarantee over-collection by the Service Provider, it does increase the Service Provider's risk of violating FCC Rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Provider ultimately applied E-Rate credits to the Beneficiaries' bills. However, AAD notes that the Beneficiaries were entitled to E-Rate discounts, and those Beneficiaries may experience cash flow issues if service providers bill for the entire pre-discount amount under the SPI method or fail to credit their bills in a timely manner.

RECOMMENDATION

The Service Provider must implement policies, controls, and procedures to obtain and process FRN funding details so that it can apply discounts to its bills on a timely basis, and to ensure Beneficiaries are billed only for the non-discounted share, plus the cost of ineligible services. The Service Provider can familiarize itself with the FCC Rules related to invoicing at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>. The Service Provider 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/>.

SERVICE PROVIDER RESPONSE

There has been no violation of FCC rules. For context, Para.235 of the E-rate Modernization order is part of Section C, "Simplifying the Invoicing and Disbursement Processes". This section was focused on – and addressed only the removal of service providers who would no longer serve as a pass-through for payment and would no longer be required to approve Form 472s. There was no indication of a change to the existing SPI methodology that the parties employ, either in the changes noted in Appendix A (later incorporated into the C.F.R.) or in the guidance and training put out by USAC following the release of the order. Processes followed by AT&T here resulted in the beneficiary

³ See *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997), and *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, para. 47 (2003).

⁴ FRN 2099040590, Audit Inquiries Record (AIR) sent June 21, 2023.

(Bakersfield City Elem Sch Dist.) paying only the non-discounted cost for the eligible services on which discounts were provided and submitted by AT&T via the Form 474 SPI process.

As the auditors noted “There is no monetary effect since the service providers ultimately applied E-Rate credits to the Beneficiary’s bills”

While the Bakersfield City Elem Sch Dist. funding application was pending approval, AT&T charged Bakersfield City Elem Sch Dist. for the total cost of the services contracted and purchased by Bakersfield City Elem Sch Dist. each month, including the services funded in Bakersfield City Elem Sch Dist. FRN: 2099040590, and as per longstanding procedures of which USAC is aware.

Once USAC approved Bakersfield City Elem Sch Dist. funding on 10/08/20 and Bakersfield City Elem Sch Dist. took all the necessary remaining steps to receive the discounts, including but not limited to submitting the Form 486 to USAC and completing and submitting the AT&T Grid information², AT&T applied the discounts to Bakersfield City Elem Sch Dist. bills related to FRN: 2099040590 applicable to Funding Year 2020. In addition, Bakersfield City Elem. Sch. Dist. signed the E-rate Rider attachment to their Contract for Services which advises of the processes used when SPI method is selected.

AT&T is not alone in handling the SPI method of billing this way. Like most other Service Providers, AT&T does not reflect discounts on the customers’ bills until after the funding has been approved and the necessary steps outlined above have been taken by the Applicant. At that time, AT&T calculates the applicable discounts back to the Form 486 effective date per the Form 486 Notification Letter received from USAC. AT&T refers to these initial discounts reflected on the invoice as the “retroactive period”. Subsequently, discounts apply monthly on a going forward basis until the Contract Expiration date or until the end of the funding year.

In this instance with Bakersfield City Elem Sch Dist., the reason the discounts may have been applied later in time than they otherwise might have been due to the following circumstances:

First, FRN: 2099040590 was not approved by USAC until 10/08/2020, which was over 3 months after the funding year began on 7/1/2020. Bakersfield City Elem Sch Dist. then filed a Form 486, as required by the E-rate rules, which AT&T received. Finally, as set forth in AT&T’s Welcome letter, AT&T requires its SPI customers to complete a “Grid” document and certify to AT&T that the information in the “Grid” is accurate. AT&T sent the Grid request to Bakersfield City Elem Sch Dist. on 10/12/2020, just 4 days after receiving the Funding Commitment Decision Letter. Bakersfield City Elem Sch Dist. returned the completed Grid information on 1/13/2021. AT&T correctly applied the discounts after receiving the Grid information.

Service Providers, such as AT&T would not and should not have to cover Bakersfield City Elem Sch Dist. or any customer’s service expenses by applying earlier discounts for the non-discounted share (i.e. “float” the customer) before the customer’s funding was approved by USAC and the other necessary steps (including the submission of the Grid document) were taken. Indeed, it is not possible for a Service Provider to provide discounts for services at the time of commencement of services because the Service Provider does not even know at that time what services are deemed eligible for discounts by USAC. Put differently, AT&T could not have applied discounts to services in July – as

suggested by the auditors - because AT&T would not have known in July exactly what services needed to be discounted as the Form 471 application for funding is completed by the BEN.

AT&T's process –explained in the E-rate Rider attached to the Contract requires applicants to identify the discounted services. Subsequently, AT&T reimburses applicants after they provide AT&T the information. The customer has agreed to this process. Finally, there was no actual harm in this situation because Bakersfield City Elem Sch Dist. was ultimately only responsible to pay their undiscounted share of the eligible services for which it received discounts as well as any ineligible services billed on the same billing account numbers.

As of the question in the chart above: "What will prevent the issue from occurring in the future?" AT&T has no plans to change our processes related to providing SPI discounts. The expectation that Service Providers would incur additional capital expense to establish separate billing systems for only the participants of the E-rate program is unrealistic.

AAD RESPONSE

Per section 54.514(c) of the Commission's rules, Beneficiaries must be permitted to select their invoicing method. Under the SPI method, a service provider is to bill the beneficiary only for the non-discounted share of the cost of the eligible services (plus the cost of any ineligible services) and then invoices USAC for the discounted share of the cost of the eligible services.⁵ During the audited Funding Year 2020 (July 1, 2020 through June 30, 2021), the invoicing method selected by the Beneficiary was the SPI invoicing method. However, the Service Provider billed the Beneficiary the full monthly cost of the eligible services rather than only the non-discounted portion of the cost of the eligible services which is inconsistent with the Commission's rules.⁶

CRITERIA

Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Order, FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order).

...We take this opportunity to reiterate that E-Rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement."

⁵ See also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 44, 46, and 47 (2003) (*Second Report and Order*).

⁶ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Report and Order, FCC 97-157, para. 586 (1997) (*First Universal Service Order*) ("[W]e reject GTE's proposal to permit service providers to demand full payment from schools and libraries, which would require institutions to secure direct reimbursement from the Administrator. We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries."); *Second Report and Order*, FCC 03-101, para. 47 ("In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the *Universal Service Order* that 'requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.'").

Service Provider Invoice (SPI) Form Certification, FCC Form 474, Block 3

"Item A - I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments."

47 C.F.R. § 54.514(c)

"Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator."

Federal-State Joint Board On Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997)

"We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries."

Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 44, 46, and 47 (2003)

"We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process....We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted services be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, *i.e.*, between receiving either a reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place....In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the *Universal Service Order* that 'requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.' . . . In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method."

This concludes the report.

**INFO Item: Audit Released May 2025
Attachment F
7/28/2025**

Attachment F

SL2023LR003

Fresno Unified School District

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

USAC Audit No. SL2023LR003

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<i>Other Matter: 47 C.F.R. § 54.514(c)(2021); Modernization Order, 29 FCC Rcd at 8963-8964, paras. 233-235 (2014). - Improper Service Provider Invoicing Method</i>	<i>6</i>

EXECUTIVE SUMMARY

April 1, 2024

Philip Neufeld, Executive Director
Fresno Unified School District
2309 Tulare Street
Fresno, CA, 93721

Dear Philip Neufeld,

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Fresno Unified School District (Beneficiary), Billed Entity Number (BEN) 144072, using regulations set forth in 47 C.F.R. Part 54 and orders and other program requirements governing the federal Universal Service E-Rate program, (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination did not disclose any areas of non-compliance with the FCC Rules that were in effect during the audit period. However, our examination disclosed one other matter (Other Matters) discussed in the Audit Result and Commitment Adjustment/Recovery Action section. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary and USAC Management's attention.

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

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

Sincerely,



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

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

AUDIT RESULT AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Other Matter: 47 C.F.R. § 54.514(c)(2021); First 2014 E-Rate Order, FCC 14-99, paras. 233-235 (2014). – Service Provider Billed the Beneficiary for the Discount Share of Services. The Service Provider billed the Beneficiary 100 percent of the cost of services, instead of the non-discounted portion, as required by the SPI method.	0	\$0	\$0
Total Net Monetary Effect	\$0	\$0	\$0

USAC MANAGEMENT RESPONSE

USAC Management concurs with the Audit Result stated above. USAC may review other FCC forms and documents filed by the Beneficiary and Service Provider during the audited Funding Year that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified. USAC also refers the Beneficiary and Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2023/E-Rate-Fall-Training-2023-Invoicing.pdf> (please see slides 12, 16, 30 and 70).
- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Fall Training: Invoicing, November 09, 2023). Please see timestamps 8:50-11:15, 13:35-14:20, 23:40-26:05, 29:05-30:30, and 56:50-58:40)

PURPOSE, SCOPE, BACKGROUND, AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for Funding Year 2021 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$2,734,088	\$2,411,258
Data Transmission and/or Internet Access	\$3,690,595	\$1,408,474
Total	\$6,424,683	\$3,819,732

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

The committed total represents three FCC Form 471 applications with seven Funding Request Numbers (FRNs). AAD selected three of the nine FRNs,¹ which represent \$4,913,606 of the funds committed and \$3,752,773 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2021 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a School District located in Fresno, California that serves over 74,000 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the E-Rate program. Specifically, AAD examined documentation to determine if it supported the effective use of funding and demonstrated that adequate controls existed to determine whether funds were used in accordance with the FCC Rules. AAD conducted inquiries and direct observation to determine whether the Beneficiary was eligible to receive funds in a limited review and had the necessary resources to support the equipment and services for which funding was requested. AAD also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

B. Competitive Bid Process

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

C. Invoicing Process

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

D. Site Visits

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

¹ The FRNs included in the scope of this audit were: 2199045930, 2199049299, and 2199049375.

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

E. Reimbursement Process

AAD obtained and examined invoices submitted for reimbursement for the equipment and services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. Specifically, AAD reviewed invoices associated with the SPIs Forms for equipment and services provided to the Beneficiary. AAD evaluated whether the Service Providers either billed the Beneficiary for only the non-discount portion of the cost.

DETAILED OTHER MATTER

Other Matter: 47 C.F.R. § 54.514(c)(2021); Modernization Order, 29 FCC Rcd at 8963-8964, paras. 233-235 (2014). - Improper Service Provider Invoicing Method

CONDITION

AAD obtained and examined the Service Provider bills and Service Provider Invoicing (SPI) Form 474 to determine whether the Service Provider, Pacific Bell Telephone Company¹ (PacBell), billed the Beneficiary based on the service provider invoice (SPI) method,² the invoicing method the Beneficiary selected. Under the SPI method, service providers bill the Beneficiary for the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the discounted share of eligible services. The Beneficiary is only required to pay the Service Provider for its non-discounted share, plus the cost of any ineligible services.³

For FRN 2199049299, PacBell appeared to have followed the billing procedures associated with the Billed Entity Applicant Reimbursement (BEAR) method instead of the SPI method because PacBell billed the Beneficiary the entire cost of services for each month during the audited funding year, July 2021 through June 2022. The Beneficiary followed the SPI method, paying the non-discounted share of their monthly bills, and leaving an unsettled balance on their account because of the overbilling. The Beneficiary did not overpay PacBell for the audited period and PacBell posted the Beneficiary's payments to their account timely. However, PacBell did not bill the Beneficiary in accordance with the SPI method. The Beneficiary's billing statements were further complicated by these additional actions:

- Adding late fees for the unpaid account balance, even though the Beneficiary was overbilled.
- Delaying adjustments to the Beneficiary's monthly bills. For the months of August 2021 through June 2022, the adjustments were not applied until the monthly bills of March 2022 through October 2022. Additionally, the bills for August 2021 through April 2022 contained adjustments from funding year 2020.
- Opening a different account for the billed services. The bills for the FRN were on two different accounts because of a change implemented by CalNet. PacBell closed the original account and began applying the billing onto another account. The Beneficiary no longer had access to see adjustments applied on the closed account, further reducing the transparency of the billing procedures.

CAUSE

The Service Provider did not demonstrate sufficient knowledge of the FCC Rules establishing the SPI method process and did not have adequate controls and procedures to ensure that the Beneficiary was billed only for

¹ PacBell is considered the Service Provider for Fresno County Schools and is a subsidiary of AT&T. There is a Master Services Agreement in place for Fresno County Schools with CalNet. PacBell acts as the subcontractor for CalNet for Fresno County Schools.

² See *Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, 8963-8964, FCC 14-99 at paras. 233-235 (2014) (*Modernization Order*); see also *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9082, FCC 97-157 at para. 586 (1997) (*Universal Service Order*); *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202, 9218, FCC 03-101 at para. 47 (2003) (*Second Report and Order*).

³ See *Universal Service Order*, 12 FCC Rcd at 9082, FCC 97-157 at para. 586; see also *Second Report and Order*, 18 FCC Rcd at 9218, FCC 03-101 at para. 47 (2003).

the discounted costs approved by USAC.⁴

EFFECT

As a result of the above-described improper use of the SPI method, the Service Provider may collect more than the discount amount because of overbilling the Beneficiary for more than the non-discounted amount for the services. An over-collection did not occur in this instance because of the controls in place at the Beneficiary. The Service Provider's billing policies, controls, and procedures increase the risk of violating the FCC Rules regarding billing beneficiaries and invoicing USAC under the SPI method.

There is no monetary effect for this finding since the Service Provider ultimately applied E-Rate credits to the Beneficiary's bills. However, AAD notes that the Beneficiary was entitled to E-Rate discounts at the time of billing. The billing methodology used by the Service Provider may be construed as lacking transparency and may put other beneficiaries in a position of experiencing cash flow issues if overpayments do occur and credits to bills are not applied in a timely manner.

RECOMMENDATION

The Service Provider must implement policies, controls, and procedures to obtain and process FRN funding based on the method they submitted to USAC. The Service Provider can familiarize itself with the FCC Rules related to invoicing at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>. The Service Provider can also learn more about the E-Rate program's training opportunities on USAC's website at <https://www.usac.org/e-rate/learn/> and keep current on E-Rate news at <https://www.usac.org/e-rate/resources/news-brief/>.

SERVICE PROVIDER RESPONSE

AT&T's SPI method process is compliant with current FCC rules. AT&T applies E-Rate credits to customers' bills after AT&T receives all information necessary to verify the services and accounts that are subject to the E-Rate discount. AT&T requests customers to provide relevant information early in the process and, in its Welcome Package, AT&T provides customers with a "Grid" identifying relevant information needed by AT&T to apply E-rate credits. AT&T applies E-Rate credits to customers' bills after receiving the completed Grid. In this case, the customer did not provide AT&T with the completed Grid until 2/17/2022 (8 months after the start of the funding year). The late Grid receipt required AT&T to systematically process disbursements for 7/2021 –1/2022 and ensure posting to the bill prior to invoicing USAC. Also, note the FCC is considering this issue of SPI invoicing in a current rulemaking proceeding. AT&T is an active participant in the proceeding and has filed both comments and reply comments explaining its SPI. processes. Please refer to AT&T comments.⁵

⁴ See FRN 2199049299, Audit Inquiries Record (AIR) sent January 2, 2024.

⁵ See AT&T Comments, filed in Schools and Libraries Universal Service Support Mechanism et. al., CC Docket No. 02-6 et. al., on September 25, 2023; see also AT&T Reply Comments, filed in Schools and Libraries Universal Service Support Mechanism et. al., CC Docket No. 02-6 et. al., on October 23, 2023; *Schools and Libraries Universal Service Support Mechanism, Federal-State Joint Board on Universal Service, Changes to the Board of Directors of the National Exchange Carrier Association, Inc.*, CC Docket No. 02-6, CC Docket No. 96-45, CC Docket No. 97-21, Report and Order and Further Notice of Proposed Rulemaking, FCC 23-56 (Jul. 21, 2023).

BENEFICIARY RESPONSE

Fresno Unified School District would respectfully add the following commentary in response to AT&T's comments.

During the period in question and for some time prior to this period, AT&T changed billing account numbers for FUSD without proper notification. This left us somewhat behind in providing the information that AT&T requires in order to post discounts against any approved funding requests.

Additionally, when AT&T changed billing account numbers, it effectively closed the original account though there were more than \$250,000 in credits left on the original account that were not disbursed to FUSD until such time as our reconciliation process discovered the discrepancy and the credits were requested to be disbursed.

Finally, because FUSD is in California and there is an additional discount available on eligible telecommunications services through the California Public Utilities Commission ("CPUC"), E-Rate applicants are compelled to use only the FCC Form 474 invoicing process, leaving us somewhat at the mercy of the service provider to post applicable and accurate discounts. We at FUSD agree with the Commission's suggestion as stated in FNPRM 23-56 (para. 74-75) that, *"...the rules be amended to make them consistent with the Commission's intent that applicants who select the SPI invoicing method must only pay their service provider for the non-discounted share of the costs of the eligible equipment and services, and the service provider must seek the remaining discounted portion of costs from USAC and may not require full payment from the applicant as well when the SPI invoicing method is used."*

AAD RESPONSE

Per section 54.514(c) of the Commission's rules, Beneficiaries must be permitted to select their invoicing method. Under the SPI method, a service provider is to bill the Beneficiary only for the non-discounted share of cost of the eligible services (plus the cost of any ineligible services) and then invoices USAC for the discounted share of cost of the eligible services. During the audited Funding Year 2021 (July 2021 through June 2022), the invoicing method selected by the Beneficiary was the SPI invoicing method. However, the Service Provider billed the Beneficiary the full monthly cost of the eligible services rather than only the non-discounted portion of the cost of the eligible services, which is inconsistent with the Commission's rules.⁶

⁶ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Report and Order, FCC 97-157, para. 586 (1997) (*First Universal Service Order*) ("[W]e reject GTE's proposal to permit service providers to demand full payment from schools and libraries, which would require institutions to secure direct reimbursement from the Administrator. We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries."); *Second Report and Order*, FCC 03-101, para. 47 ("In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the *Universal Service Order* that 'requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.'").

CRITERIA

47 C.F.R. § 54.514(c) (2020).

Choice of payment method. Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full, undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.

47 C.F.R. § 54.504(f)(5) (2020).

The service provider listed on the FCC Form 473 certifies 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.

Modernizing the E-rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 235 (2014) (*First 2014 E-Rate Order*).

We take this opportunity to reiterate that E-rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.

Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997) (*Universal Service Order*).

We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.

Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, para. 44, 46-47 (2003) (*Second Report and Order*).

We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . [W]e find that providing applicants with the right to choose which payment method to use will help to ensure that all schools and libraries have affordable access to telecommunications and Internet access services. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted services may be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, i.e., between receiving either reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place. In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the Universal Service Order that ‘requiring schools and libraries to pay in full could create serious cash

flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.” . . .In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.

Service Provider Invoice (SPI) Form, FCC Form 474, Block 3 (2023)

“Item A - I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.”

**This concludes the report. **

INFO Item: Audit Released May 2025

Attachment G

7/28/2025

Attachment G

SL2024LR013

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

ISANA ACADEMIES

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

USAC AUDIT No. SL2024LR013



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
ISANA ACADEMIES
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

January 29, 2025

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:

Sikich CPA LLC¹ (referred to as “Sikich” or “we”) audited the compliance of ISANA Academies (Beneficiary), Billed Entity Number (BEN) 17006823, using regulations governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as orders and other program requirements (collectively, Federal Communications Commission [FCC] Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with the FCC Rules based on our audit.

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

¹ Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

Based on the test work performed, our audit disclosed one detailed audit finding and one other matter, 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. An “other matter” is a condition that does not necessarily constitute an FCC Rule violation but that warrants the attention of the Service Provider and USAC management.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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 audit found that two of the Beneficiary’s Service Providers did not comply with FCC Rules, as provided in the one detailed audit finding and one other matter discussed below.

Audit Results	Monetary Effect	Recommended Recovery
Finding No. 1, 47 C.F.R. § 54.502(a) (2021) – The Service Provider Invoiced E-Rate Program for Ineligible Equipment and Services. One Service Provider invoiced the E-Rate program for equipment used for ineligible purposes.	\$32,571	\$32,571
Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235 – Service Provider Billed the Beneficiary for the Discounted Share of Costs While Using the Service Provider Invoice (SPI) Method. One Service Provider inappropriately billed the Beneficiary for USAC’s share of service costs under the SPI method.	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$32,571</u>	<u>\$32,571</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. USAC may review other FCC forms and documents filed by the Beneficiary and Service Provider during the audited Funding Year that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments. USAC will request that the Beneficiary 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/wp-content/uploads/e-rate/documents/Webinars/2025/2025_E-Rate_Eligible_Services_QA_Session.pdf
- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/fcc-form-474-filing/>

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.

FRN	Recovery Amount
2299051872	\$32,571

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Year (FY) 2022. The Beneficiary is a school district located in Los Angeles, California, that serves more than 2,600 students.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Beneficiary for FY 2022 as of February 13, 2024, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$653,957	\$628,969
Internal Connections	\$108,243	\$108,243
Total	<u>\$762,200</u>	<u>\$737,212</u>

The “amount committed” total represents three FCC Form 471, *Description of Services Ordered and Certification* Forms, applications submitted by the Beneficiary for FY 2022 that resulted in six Funding Request Numbers (FRNs). We selected a sample of three of the FRNs,² which represent \$737,134 of the funds committed and \$720,932 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

² Our sample included FRNs 2299014596, 2299056743, and 2299051872.

funding effectively and whether it had adequate controls in place. We conducted inquiries and performed 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 Bidding Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) considered the price of the eligible equipment and services as the primary factor in selecting its Service Providers. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470, *Description of Services Requested and Certification Form*, was posted on USAC's website before signing contracts with the selected Service Providers. Additionally, we examined the selected Service Provider contracts to determine whether they were properly executed.

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 474, *Service Provider Invoice* (SPI) Forms, and the corresponding Service Provider bills were consistent with the terms and specifications of the selected Service Provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share to the selected Service Providers 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 invoices that the selected Service Providers submitted to USAC for reimbursement and performed procedures to determine whether they had properly invoiced USAC. Specifically, we reviewed invoices associated with the SPI Forms for equipment and services selected Service Providers provided to the Beneficiary. We verified that the equipment and services identified on the SPI Forms and the corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider agreements and were eligible in accordance with the E-Rate Eligible Services List.

Detailed Audit Findings

Finding No. 1, 47 C.F.R. § 54.502(a) (2021) – The Service Provider Invoiced E-Rate Program for Ineligible Equipment and Services

Condition

One of the Beneficiary’s selected Service Providers, AMS.NET, Inc., invoiced the E-Rate program \$38,319 for costs incurred to purchase and install 176 Panduit Net-Key Cat6 Jacks and 52 Panduit Junction Boxes, which were used for ineligible purposes.³ The Beneficiary is using these jacks and boxes solely for phone lines and security cameras, which are not on the Eligible Services List (ESL) and are ineligible for E-Rate funding.⁴ Specifically, while the FCC has removed the requirement that all drops and jacks be cost-allocated, where they are installed specifically for an ineligible purpose, such as for a security network, they remain ineligible.⁵

Cause

The Service Provider did not have adequate policies and procedures in place to ensure it did not invoice the E-Rate program for the purchase of equipment and services used for ineligible purposes. Additionally, the Beneficiary lacked controls to ensure that E-Rate funded equipment is used only for eligible purposes.

Effect

The monetary effect for this finding is \$32,571 (\$38,319 multiplied by the Beneficiary’s 85 percent discount rate).

Support Type	Monetary Effect	Recommended Recovery
Internal Connections FRN 2299051872	\$32,571	\$32,571

Recommendations

We recommend that:

1. USAC management seek recovery of the amount identified in the Effect section above.
2. The Service Provider implement controls and procedures to ensure that it only invoices the E-Rate program for the cost of equipment and services provided for E-Rate eligible purposes.

³See also 47 § CFR 54.504(f)(5) (2021) - “The service provider listed on the FCC Form 473 certifies 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.”

⁴*Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, paras. 143- 150 (2014) (*First 2014 E-Rate Order*); *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, DA 21-1602 (WCB 2021) (FY22 Eligible Services List); *Schools and Libraries Universal Service Support Mechanism et al*; CC Dockets No. 02-6 et al., Report and Order and Further Notice of Proposed Rulemaking, FCC 23-56, para. 28 (2023) (“[C]abling is ineligible to the extent it is installed specifically for a security camera network or for a dedicated voice network.”).

⁵ *Id.*

3. The Beneficiary implement controls to ensure that E-Rate funded equipment is only used for eligible purposes.

Service Provider Response

AMS.NET followed the RFP and Bid forms that were sent to you on Friday.

AMS.NET did not sell or install any Phones to Isana. (Depending on the Technology, and type of Phones these could be Eligible, If you would like an education in Phone technology feel free to call me). AMS.NET did not sell or install any Camera's[sic] to Isana.

Attached is a Map of the Data Drops (See Attachment A) that AMS.NET installed and the color coding clearly shows what the cable drops were designated for. This documentation was supplied to the client at completion of the project. If the client hired a vendor who sold them Camera's and/or Phones and installed them on the Work that AMS.NET completed in good faith under the E-Rate agreement, that specific work is between ISANA, that specific Vendor and the SLD.

Beneficiary Response

ISANA E-Rate Team (Chief Operations Office, and Director of Media & Technology), have recently received re-training on the current E-Rate rules and regulations, including eligible services and equipment. On an annual basis, ISANA key staff members will receive training on any updated E-Rate rules and regulations, as they may change from time to time, to ensure ongoing compliance.

ISANA E-Rate Team will work with its E-Rate consultant to review its Category 2 expense documentation (requisitions, invoices, and implementation plans) to identify any potential conflicts with E-Rate rules and regulations prior to the payment for and use of applicable E-rate funded equipment. The team will annually review existing E-Rate equipment usage to ensure it continues to comply with E-Rate rules and regulations.

Auditor Response

While AMS.Net did not provide phones or security cameras, because the Beneficiary is using the jacks and boxes that AMS.Net did provide for security cameras and phones, which are ineligible services, our position regarding this finding has not changed.

Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235 – Service Provider Billed the Beneficiary for the Discounted Share of Costs While Using the SPI Method

Condition

We obtained and examined the one of the Beneficiary's Service Provider's, Charter Communications Operating LLC (dba Spectrum Enterprise)'s bills to determine whether the Service Provider only billed the Beneficiary for the non-discounted portion of costs on the bills, plus the costs of any ineligible services. Specifically, for FY 2022, the Beneficiary elected to receive E-Rate reimbursement from USAC for the following FRNs using the Service Provider

Invoice (SPI) method⁶ at the following discount rates:

FRN	Discount Rate
2299014596	90%
2299056743	90%

Under the SPI method, service providers bill beneficiaries for only the non-discounted share of costs for eligible equipment and services (and the costs for any ineligible equipment and services), and invoice USAC for the remaining discounted share of the costs for eligible equipment and services.⁷ Thus, under the SPI method, beneficiaries are responsible for paying service providers only for the non-discounted share of costs (plus the costs of any ineligible equipment and services), and the service provider is required to invoice USAC for the discounted share of costs of eligible equipment and services in order to receive payment.⁸ However, in this case, the Service Provider instead billed the Beneficiary for the full pre-discount costs of the eligible services for the FRNs listed in the table above, rather than only the Beneficiary's non-discounted share of the costs (plus the costs of any ineligible services). After the Service Provider received reimbursement for the discounted share of the costs from USAC, it posted a credit for the same amount to the Beneficiary's accounts to be applied to future billing periods.

Cause

The Service Provider did not have adequate controls and procedures in place to ensure compliance with FCC Rules.

Effect

As a result of the above-described improper use of the SPI method, the Service Provider charged and collected more than the Beneficiary's non-discounted portion of costs of the eligible services during the period at issue. However, there is no monetary effect since the Service Provider ultimately passed through the SPI payments and applied E-Rate credits to the Beneficiary's subsequent bills. We note that, by selecting the SPI reimbursement method, the Beneficiary was only required to pay the Service Provider the non-discounted portion of the costs of the eligible equipment and services. Requiring that the Beneficiary pay the full pre-discount costs and wait for reimbursement of the discounted portion of the costs in the form of a credit on subsequent bills is inconsistent with E-Rate program rules.⁹ In addition, requiring beneficiaries to pay the full pre-discount costs could create serious cash flow problems and could disproportionately affect the most disadvantaged schools and libraries.¹⁰

⁶ *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184 Order FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order). See also *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997); and *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 46-47 (2003) (*Second Report and Order*).

⁷ *Id.*

⁸ *Id.*

⁹ See *First 2014 E-Rate Order*, FCC 14-99, at para. 235; *Second Report and Order*, FCC 03-101, paras. 46-47.

¹⁰ See *Second Report and Order*, FCC 03-101, at para. 47.

Recommendation

The Service Provider must implement policies, controls, and procedures to obtain and process FRN funding details so that it can apply billing discounts on a timely basis and ensure that beneficiaries who select the SPI invoicing method are billed only for the non-discounted share of costs for the eligible equipment and services (plus the cost of any ineligible equipment and services). The Service Provider should familiarize itself with the FCC Rules related to invoicing at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>. Additionally, the Service Provider can learn more about E-Rate program 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/>.

Service Provider Response

Spectrum agrees and strives to provide SPI Discounts in a timely manner following a compliance review. Spectrum prevents late fees and collections activity while encouraging short payment of monthly invoices based on the anticipated SPI Discount value in the event that SPI Discounts are delayed and not present on the July invoice. Spectrum has developed several process enhancements focused on SPI Discount efficiencies since FY2022.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.502(a) (2021)	(a) Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes.
1	47 CFR § 54.504(f)(5) (2021)	The service provider listed on the FCC Form 473 certifies 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.
1	Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, paras. 143-150 (2014) (First 2014 E-Rate Order)	Pursuant to sections 254(c)(1), (c)(3), (h)(1)(B), and (h)(2) of the Act, we eliminate support for other legacy and non-broadband services effective for funding year 2015.
1	Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, DA 21-	Appendix B. The Federal Communications Commission's (FCC) rules provide that all services that are eligible to receive discounts under the Schools and Libraries Universal Service Support Mechanism (otherwise

Finding	Criteria	Description
	1602, Order, (WCB 2021)	<i>known as the E-Rate program or E-Rate) are listed in this Eligible Services List (ESL). 47 CFR § 54.502(a). The E-Rate program is administered by the Universal Service Administrative Company (USAC). 47 CFR § 54.5. Eligible schools and libraries may seek E-Rate support for eligible Category One telecommunications services, telecommunications, and Internet access, and Category Two internal connections, basic maintenance, and managed internal broadband services as identified herein. 47 CFR §§ 54.500 et seq.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism; et al., CC Dockets No. 02-6 et al etc., Report and Order and Further Notice of Proposed Rulemaking, FCC 23-56, para. 14 (2023)</i>	<i>[C]abling is ineligible to the extent it is installed specifically for a security camera network or for a dedicated voice network.</i>

Other Matter	Criteria	Description
1	<i>Modernizing the E-rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order)</i>	<i>Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.</i>
1	<i>Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997)</i>	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries. For purposes of administrative ease, we conclude that service providers, rather than schools and libraries, should seek compensation from the universal service administrator.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further</i>	<i>We find that providing applicants with the right to choose payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted service be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, i.e., between receiving either a reimbursement for the discount or an off-set</i>

Other Matter	Criteria	Description
	Notice of Proposed Rulemaking (FNPRM), FCC 03-101, paras. 46-47 (2003) (<i>Second Report and Order</i>)	<p><i>against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place.</i></p> <p><i>In addition, we find that providing applicants with the right to choose which payment method to use will help to ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the Universal Service Order that “requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.” The comments in the present record have confirmed that many applicants cannot afford to make the upfront payments that the BEAR method requires. In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i></p>

Sikich CPA LLC

USAC Audit No. SL2024LR013



INFO Item: Audit Released May 2025

Attachment H

7/28/2025

Attachment H

SL2023LR019

*Limited Scope Performance Audit
of
Arlington Independent School District's*

*Compliance with the Federal Universal Service Fund E-Rate
Support Mechanism Rules*

for Funding Year 2021

Conducted for:

Universal Service Administrative Company

USAC Audit No. SL2023LR019

 **REGIS**
ASSOCIATES, PC
MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS
1420 K Street, NW
Suite 910
Washington, DC 20005

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Executive Summary

April 03, 2025

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:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) engaged Regis & Associates, PC to audit the compliance of Arlington Independent School District (Beneficiary), Billed Entity Number 140841, for the twelve-month period ended June 30, 2022, (Funding Year 2021), using regulations and orders governing the federal Universal Service E-Rate Program, set forth in 47 C.F.R. Part 54; as well as other program requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary's compliance with the FCC's Rules, based on our limited scope performance audit.

We conducted this performance 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 we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select Service Providers, data used to calculate the discount percentage and the type and amount of services received, physical inventory of equipment purchased and maintained, as well as performing other procedures we considered necessary to make a determination regarding the Beneficiary's compliance with the FCC Rules. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

Regis & Associates, PC

Sincerely,
Regis & Associates, PC
Washington, DC
April 03, 2025

Background, Objective, Scope, and Procedures

Background

Arlington Independent School District – Overview

The Arlington Independent School District is the 13th-largest school district in Texas, educating approximately 60,000 students through early education and preschool programs all the way through high school and adult education. It is comprised of 77 schools with approximately 4,049 employees.

Objective

The objective of this performance audit was to determine whether the Beneficiary complied with the applicable requirements of the FCC’s Rules, as well as the FCC’s Orders that govern the E-Rate Program; for Funding Year 2021.

Scope

The scope of this performance audit includes examining on a test basis, evidence supporting the Beneficiary’s compliance with the FCC Rules. The FCC Rules govern commitment amounts and disbursements received during Funding Year 2021. The testing and analysis conducted are detailed in the Procedures section of this report. The following chart summarizes the E-Rate program support amounts committed and disbursed for Funding Year 2021 (audit period):

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$5,113,830	\$2,602,407
Internal Connections	\$2,355,417	\$2,294,554
Total	\$7,469,247	\$4,896,961

Note: The amounts committed and disbursed reflect Funding Year activity, as of April 26, 2023.

The committed total represents 3 FCC Form 471 applications with 9 Funding Request Numbers (FRNs). We selected 5 FRNs of the funded 9 FRNs¹, which represent \$7,338,877 of the funds committed and \$4,783,501 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding year 2021 applications submitted by the Beneficiary.

¹ The FRNs included in the scope of this audit were: 2199063011, 2199063016, 2199033289, 2199033307 and 2199063003.

Procedures

We performed procedures related to the E-Rate program, relative to amounts committed and disbursed for Funding Year 2021, as of April 26, 2023. These procedures are enumerated below:

A. Application Process

We obtained an understanding of the Beneficiary's processes relating to the E-Rate program. Specifically, we examined documentation to determine if it supported effective use of funding and demonstrated that adequate controls existed to determine whether funds were used in accordance with the FCC Rules. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

B. Competitive Bid Process

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

C. Invoicing Process

We obtained and examined invoices for which payment was disbursed by USAC to determine whether the equipment and services identified on the FCC Form 472 Billed Entity Applicant Reimbursements (BEARs), FCC Form 474 Service Provider Invoices (SPIs), and corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider agreements. 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 equipment and services were located in eligible facilities and utilized in accordance with the FCC Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. We also evaluated the equipment and services purchased by the Beneficiary for cost effectiveness, to determine whether funding was used in an effective manner.

E. Reimbursement Process

We obtained and examined invoices submitted for reimbursement for the equipment and services delivered to the Beneficiary, and performed procedures to determine whether USAC was invoiced properly. Specifically, 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 eligible in accordance with the E-Rate Eligible Services List.

INFO Item: Audit Released May 2025

Attachment I

7/28/2025

Attachment I

SL2023LR014

*Limited Scope Performance Audit
Of
Greater Bergen Community Action Inc.'s
Compliance with the Federal Universal Service Fund E-Rate
Support Mechanism Rules
for Funding Year 2021
Conducted for:
Universal Service Administrative Company
USAC Audit No. SL2023LR014*

 **REGIS**
ASSOCIATES, PC
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Executive Summary

May 5, 2025

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:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) engaged Regis & Associates, PC to audit the compliance of Greater Bergen Community Action Inc. (Beneficiary), Billed Entity Number (BEN) 16040958, for the twelve-month period ended June 30, 2022 (Funding Year 2021), using regulations set forth in 47 C.F.R. Part 54, orders governing the federal Universal Service E-Rate Program, as well as other program requirements (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC's Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary's compliance with the FCC's Rules, based on our limited scope performance audit, pursuant to 47 C.F.R. Section 54.516(c).

We conducted this performance 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 we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, as well as performing other procedures we considered necessary to make a determination regarding the Beneficiary's compliance with the FCC Rules. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the test work performed, our audit disclosed one finding discussed in the Audit Result Action Section of this report. 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's management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,

Regis & Associates, PC

Regis & Associates, PC

Washington, DC

May 5, 2025

Audit Result Recovery Action

Audit Result	Monetary Effect	Recommended Recovery
Finding #1: 47 C.F.R. § 54.520(h) (2020) – Public Notice; Hearing or Meeting. The Beneficiary failed to provide support that meetings, hearings, or the public was notified of internet safety and acceptable use policies. Finding #1: 47 C.F.R. § 54.516(a) (2020) – Auditing and Inspections, Recordkeeping Requirements. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well.	\$0	\$0
Total Net Monetary Effect	\$0	\$0

USAC Management’s Response

USAC management concurs with the Audit Results stated above. USAC may review other FCC forms and documents filed by the Beneficiary and Service Provider during the audited Funding Year that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments. USAC will request that the Beneficiary 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/wp-content/uploads/e-rate/documents/Webinars/2023/E-Rate-Fall-Training-Post-Commitment-Process.pdf> (please see pages 20-28).
- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Fall Training: E-Rate Post-Commitment Process, November 07, 2023). Please see timestamp 21:20-25:45.
- <https://www.usac.org/e-rate/applicant-process/starting-services/cipa/>
- <https://www.usac.org/e-rate/resources/document-retention/>

USAC records show that 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.

Background, Objective, Scope, and Procedures

Background

Greater Bergen Community Action Inc. (GBCA)

The Greater Bergen Community Action Inc. (GBCA) is a not-for-profit company established in 1967 in New Jersey. GBCA provides a wide range of programs to assist infants, preschoolers, etc., through the Early Childhood Development Programs (Early Head Start/Head Start) unit. GBCA employs around 600 staff in a wide range of professional disciplines and engages the community at every level.

Objective

The objective of this performance audit was to determine whether the Beneficiary complied with the applicable requirements of the FCC's Rules, as well as the FCC's Orders, that govern the E-Rate Program for Funding Year 2021.

Scope

The scope of this performance audit includes examining on a test basis, evidence supporting the Beneficiary's compliance with the FCC Rules. The FCC Rules govern commitment amounts and disbursements received during Funding Year 2021.¹ The testing and analysis conducted are detailed in the Procedures section of this report. The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for Funding year 2021 FCC Form 471 (audit period):

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$705,443	\$29,796
Internal Connections	\$318,750	\$0
Total	\$1,024,193	\$29,796

Note: The amounts committed and disbursed reflect funding year activity, as of April 25, 2023.

The committed total represents two FCC Form 471 applications with five Funding Request Numbers (FRNs). We selected four FRNs of the funded five FRNs,² which represent \$1,013,052 of the funds committed and \$29,796 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding year 2021 applications submitted by the Beneficiary.

¹ 47 C.F.R. Part 54.

² The FRNs included in the scope of this audit were: 2199058955, 2199061029, 2199058993, and 2199034973.

Procedures

We performed procedures related to the E-Rate program, relative to amounts committed to, and received by the Beneficiary, for Funding Year 2021, as of April 25, 2023. These procedures are enumerated below:

A. Application Process

We obtained an understanding of the Beneficiary's processes relating to the E-Rate program. Specifically, we examined documentation to determine whether it supported the effective use of funding, and demonstrated that adequate controls existed to determine whether funds were used in accordance with the FCC Rules. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

B. Competitive Bidding Process

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

C. Invoicing Process

We obtained and examined invoices for which payment was disbursed by USAC to determine whether the equipment and services identified on the FCC *Form 474 Service Providers Invoices* (SPIs), and corresponding Service Providers 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 equipment and services were located in eligible facilities and utilized in accordance with the FCC Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. We also evaluated the equipment and services purchased by the Beneficiary for cost effectiveness and to determine whether funding was used in an effective manner.

E. Reimbursement Process

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

Detailed Audit Finding

Finding #1: 47 C.F.R. § 54.520(h) and 47 C.F.R. § 54.516(a) – Failure to Comply with the Children’s Internet Protection Act (CIPA) Public Notice; Hearing or Meeting Requirements; and Recordkeeping Requirements.

Condition:

We audited the Beneficiary’s compliance with the CIPA public notice and public meeting or hearing requirements. We requested that the Beneficiary provide documentation demonstrating that the Beneficiary provided reasonable public notice and held at least one public hearing or meeting to address the proposed Internet safety policy required under the Children’s Internet Protection Act. We requested that the Beneficiary provide, for example, a copy of the meeting minutes, a meeting advertisement or announcement from the Beneficiary’s website, or an agenda for Head Start’s council policy meetings. We also inquired whether the Beneficiary held public meetings, hearings, or sent notices addressing Internet safety and acceptable use policies to the general public, employees, students, or parents of attending students during the Funding Year 2021. The Beneficiary stated that it did, but it was unable to provide documentation to support the fact that such meetings occurred or reasonable public notice was provided. We, however, noted that there was a technological protection measure for blocking or filtering inappropriate websites during the audit period.

Cause:

The Beneficiary did not retain the documents to demonstrate that it had provided reasonable public notice and held at least one public hearing or meeting to address the Internet safety policy as required under the Children’s Internet Protection Act.

Effect:

The monetary effect of this finding is \$0. There is no recommended recovery for this finding as the Beneficiary’s noncompliance with the CIPA public notice and public meeting or hearing requirement has no monetary effect.

Recommendations:

We recommend that:

1. The Beneficiary must ensure that it communicates to the public about the Internet safety policy; and convene at least one public hearing or meeting per year to discuss it.
2. The Beneficiary must develop and implement a document retention policy to ensure that all the documents required to demonstrate the Beneficiary’s compliance with the FCC Rules are properly retained.

Further, we recommend the Beneficiary visit USAC’s website at <https://www.usac.org/e-rate/learn/> to

become familiar with the training and outreach available from the E-Rate program and ensure it has designated personnel on staff knowledgeable of the FCC Rules to monitor compliance with the FCC Rules.

Beneficiary Response:

The Beneficiary agreed with the finding and recommendation. Refer to Appendix 1 for the entire response.

Auditor’s Response:

Since the Beneficiary concurred with our finding and has provided us with documentation to demonstrate that it has taken corrective action (i.e., provided public notice and held an internet safety meeting) no further action is required on this finding³. We note that the monetary effect of this finding is \$0 because, although the Beneficiary was not able to provide documentation demonstrating that it provided reasonable public notice and held at least one public hearing or meeting to address its proposed Internet safety policy, the Beneficiary did have a Technology Protection Measure (TPM) in place. It also took steps to cure the CIPA violation by providing notice and holding an Internet safety meeting.³

Criteria

Finding	Criteria	Description
# 1	47 C.F.R. § 54.520(h) (2020) – Public Notice; Hearing or Meeting	A school or library shall provide reasonable public notice and hold at least one public hearing or meeting to address the proposed Internet safety policy
# 1	47 C.F.R. § 54.516(a) (2020) – Auditing and Inspections, Recordkeeping Requirements	Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well.

³ See *Schools and Libraries Universal Service Support Mechanism, A National broadband Plan for Our Future*, CC Docket No. 02-6, GN Docket No. 09-51, Report and Order, FCC 11-125, para. 20, n. 69 (2011) (*2011 CIPA Order*) (explaining that a school or library who “cannot locate any records of a public notice and hearing that was held after August 2004, . . . the school or library could provide public notice and hold a hearing or meeting to be able to demonstrate that it has complied with the statute”).

⁴ See *id.*

	<i>Schools and Libraries Universal Support Mechanism, A National Broadband Plan for Our Future, CC Docket No. 02-6, Report and Order, FCC 11-125, para. 21 (2011)</i>	We agree in certain circumstances, USAC should give applicants the opportunity to correct minor errors that could result in violations of the Commission's CIPA rules before instituting recovery of E-Rate funds, but such errors must be immaterial to statutory CIPA certification compliance. For example, if a school has complied in practice with the CIPA certification it has made with regard to the use of its Internet access services by minors, but has inadvertently left out one of the details of its practice in its written Internet safety policy, we would consider that to be an immaterial error that could be cured.
	<i>Schools and Libraries Universal Support Mechanism, A National Broadband Plan for Our Future, CC Docket No. 02-6, Report and Order, FCC 11-125, para. 20, and n. 69 (2011)</i>	"However, prospectively, an entity must, a minimum, keep some record of when the public notice and hearing or meeting took place (e.g., a copy of the meeting agenda, or a newspaper article announcing the hearing or meeting)." Footnote 69 provides "If the school or library cannot locate any record of a public notice and hearing that was held after August 2004 (such as board minutes, an announcement to the public or an affidavit from someone who attended swearing that the meeting occurred), the school or library could provide public notice and hold a hearing or meeting to be able to demonstrate that it has complied with the statute."

Appendix 1: Beneficiary Response



Greater Bergen Community Action
392 Main Street
Hackensack, NJ 07601
201-968-0200
www.GreaterBergen.org

September 30, 2024

Regis & Associates, PC
1420 K St NW Ste 910
Washington, DC 20005

Please see our official response below for the non-monetary finding:

Beneficiary Response

Greater Bergen has had a change in Management and staff since the early CIPA documents were created. Our efforts to recover the documents were unsuccessful. Greater Bergen has advertised and held an Internet Safety Meeting since this was brought to our attention.

This meeting was documented, and the retention policy indicates that the documentation will be stored for each Funding Year going forward.

In addition, all relevant supporting documentation was sent to Mr. Saidu Bangura, of Regis & Associates via email. This includes the Public Notice advertisement as well as the presentation for those who attended the public hearing.

Sincerely,

Haymee Medina

Chief Financial Officer

** This concludes the audit report. **

Summary of the Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: June 2025.

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action*	Commitment Adjustment	Entity Disagreement
Attachment J San Antonio Independent School District	1	<ul style="list-style-type: none"> No significant findings. 	\$6,180,518	\$609,369	\$0	\$0	Partial
Attachment K Chicago Public Schools	2	<ul style="list-style-type: none"> No significant findings. 	\$3,829,342	\$1,378,092	\$0	\$0	N
Attachment L Gila County Information Education Technology Consortium	1	<ul style="list-style-type: none"> Beneficiary Did Not Pay Its Non-Discounted Share to the Service Provider – The Beneficiary did not pay the non-discounted share of a Service Provider's invoices in a timely manner. 	\$20,609	\$20,609	\$0	\$0	Partial
Attachment M Lodi Unified School District	1	<ul style="list-style-type: none"> No significant findings. 	\$696,529	\$68,979	\$68,979	\$0	Partial
Attachment N Irvine Unified School District	1	<ul style="list-style-type: none"> No significant findings. 	\$1,126,070	\$1,690	\$0	\$0	Y
Attachment O	0	<ul style="list-style-type: none"> Not applicable. 	\$173,657	\$0	\$0	\$0	N/A

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action*	Commitment Adjustment	Entity Disagreement
The O'Farrell Charter School							
Attachment P Newman International Academy	1	<ul style="list-style-type: none"> No significant findings. 	\$183,450	\$3,237	\$3,237	\$0	N
Attachment Q Nash-Edgecombe Economic Development, Inc.	7	<ul style="list-style-type: none"> Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Items. The Beneficiary did not remove the cost of services for ineligible programs from one of its funding requests. 	\$289,234	\$53,583	\$47,930	\$31,149	N
Total	14		\$12,499,409	\$2,135,559	\$120,146	\$31,149	

* The USAC Management Recovery Action may be less than the Monetary Effect as the circumstances did not warrant a recovery of funds (i.e., the Beneficiary paid its non-discounted share of services or service provider reimbursed the E-Rate program prior to audit completion).

INFO Item: Audit Released June2025

Attachment J

7/28/2025

Attachment J

SL2021LR020

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES

USAC AUDIT No. SL2021LR020



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

November 16, 2022

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “Sikich” or “we”) audited the compliance of San Antonio Independent School District (Beneficiary), Billed Entity Number (BEN) 141544, using regulations set forth in 47 C.F.R. Part 54 and orders and other program requirements governing the federal Universal Service E-Rate program, (collectively, Federal Communications Commission [FCC] Rules. Compliance with FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with FCC Rules based on our performance audit.

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, a virtual inventory of equipment purchased and maintained, as well as 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.

¹ Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

Based on the test work performed, our audit disclosed one detailed audit finding and one other matter, 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. An “other matter” is a condition that does not necessarily constitute a violation of FCC Rules but that warrants the attention of the Beneficiary and USAC management.

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

Audit Results and Recovery Action

Based on the test work performed, our audit found that the Beneficiary and its Service Providers did not comply with FCC Rules, as provided in the one detailed audit finding and one other matter discussed below.

Audit Results	Monetary Effect	Overlapping Recovery	Recommended Recovery
Finding No. 1, 47 C.F.R. § 54.523 (2018) – Untimely Payment of the Beneficiary Non-Discount Share to the Service Provider. The Beneficiary did not consistently pay the non-discounted share of its service providers’ invoices in a timely manner.	\$609,369	\$0	\$0
Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235 - - Service Provider Billed the Beneficiary for the Discount Share of Costs While Using the Service Provider Invoice (SPI) Method.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Two of the Beneficiary's Service Providers billed the Beneficiary for the discounted share of service costs under the SPI method.			
Total Net Monetary Effect	<u>\$609,369</u>	<u>\$0</u>	<u>\$0</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Beneficiary and Service Providers 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/e-rate/learn/webinars/> (E-Rate Invoice Training Webinar, February 10, 2022)
- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Invoicing Process: Office Hour Webinar, July 21, 2022)

USAC records show the Beneficiary and Service Providers are currently subscribed to the E-Rate weekly News Brief. USAC encourages the Beneficiary and Service Providers 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 San Antonio, Texas, that serves more than 48,000 students.

The following chart summarizes the E-Rate 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
Data Transmission and/or Internet Access	\$5,890,320	\$5,580,306
Internal Connections	<u>\$605,796</u>	<u>\$600,212</u>
Total	<u>\$6,496,116</u>	<u>\$6,180,518</u>

The "amount committed" total represents three FCC Form 471, *Description of Services Ordered and Certification Form*, applications submitted by the Beneficiary for FY 2019 that resulted in

16 Funding Request Numbers (FRNs). We selected a sample of five of the FRNs,² which represent \$6,127,281 of the funds committed and \$5,875,644 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 conducted inquiries, performed direct observation, and inspected 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 Bidding Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) considered the price of the eligible equipment and services as the primary factor in selecting its Service Providers. We also obtained and examined evidence to determine whether the Beneficiary waited the required 28 days from the date the FCC Form 470, *Description of Services Requested and Certification Form*, was posted on USAC's website before signing contracts with the selected Service Providers. Additionally, we examined the Service Provider contracts to determine whether the Beneficiary and the Service Providers properly executed the contracts.

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the services identified on the FCC Forms 472, *Billed Entity Applicant Reimbursements* (BEAR) Forms; FCC Forms 474, *Service Provider Invoices* (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 to the Service Providers in a timely manner.

D. Site Visit

² Our sample included FRNs 1999061011, 1999070097, 1999070156, 1999071569, 1999072386.

We performed a virtual physical inventory to evaluate the location and use of equipment and services to determine whether they were properly delivered and installed, located in eligible facilities, and used in accordance with FCC Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which it 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 service invoices that the Beneficiary and Service Provider submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary and Service Provider had properly invoiced USAC. Specifically, we reviewed invoices associated with the BEAR and SPI Forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the BEAR and SPI Forms and corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider agreements and were eligible in accordance with the E-Rate program Eligible Services List.

Detailed Audit Finding

Finding No. 1, 47 C.F.R. § 54.523 (2018)³ – Untimely Payment of the Beneficiary Non-Discount Share to the Service Provider

Condition

The Beneficiary did not consistently pay the non-discounted share of its Service Providers' bills within 90 days of receiving services, as required by FCC Rules. Specifically:

- The Service Provider for FRN 1999070156, Zayo Group, LLC (Zayo), billed the Beneficiary monthly for recurring services and as-incurred for non-recurring installation services throughout FY 2019. Although the Beneficiary made timely payments for the recurring services, it did not pay a September 1, 2019, bill for a non-recurring installation charge until April 3, 2020, 215 days after the bill date.

³ See also *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd. 15808, 15816 para. 24 (2004).

Invoice Date	Check Date	No. of Days to Pay	Applicable Invoiced Amount ⁴
September 1, 2019	April 3, 2020	215	\$20,000

- The Service Provider for FRN 1999072386, Netsync Network Solutions (Netsync), submitted three bills for network equipment. Although the Beneficiary paid two of the bills in a timely manner, the Beneficiary did not pay the June 8, 2020, bill until September 22, 2020, 106 days after the bill date.

Invoice Date	Check Date	No. of Days to Pay	Applicable Invoiced Amount ⁵
June 8, 2020	September 22, 2020	106	\$1,712

- The Service Provider for FRN 1999070097, Southwestern Bell Telephone Company (doing business as [dba] AT&T) (AT&T), billed the Beneficiary monthly for both eligible and ineligible recurring E-Rate services. The Beneficiary continuously made payments for these services throughout FY 2019, but it was unable to tie the payments to specific bills and E-Rate services. Although the Beneficiary paid its full non-discounted share by the end of the funding year, we were unable to verify whether the Beneficiary paid any of its \$587,657 non-discounted share within 90 days of the dates it received the bills.

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 the costs for eligible services. Specifically, the Beneficiary's process for paying its service providers involved (i) paying bills in batches and not paying the full amount until Service Providers issued E-Rate credits [Zayo], (ii) delays caused by COVID-19 related operational disruptions [Netsync] and (iii) simultaneously paying for eligible and ineligible services without identifying which payments applied to which services [AT&T].

Effect

The monetary effect of this finding is \$609,369. Because the Beneficiary ultimately paid the non-discounted share of the funded services, we are not recommending recovery of USAC funds.

⁴ The check dated April 3, 2020, was for \$20,000 and represented a payment toward the \$25,080 bill for E-Rate services dated September 1, 2019. The \$20,000 was the payment for the non-recurring service and the non-discounted share.

⁵ Although the September 22, 2020, check was for \$24,116, only \$1,712 of this amount related to E-Rate services.

Support Type	Monetary Effect
Internet Access FRN 1999070156	\$20,000
Internet Access FRN 1999072386	\$1,712
Internet Access FRN 1999070097	\$587,657
Total	<u>\$609,369</u>

Recommendation

We recommend that the Beneficiary implement policies, controls and procedures to ensure that:

1. The Beneficiary pays service providers within 90 days after completion of service.
2. The Beneficiary maintains detailed records supporting services paid on each bill.

Beneficiary Response

The Beneficiary and the service provider agreed that FRN 1999070156 would be processed via the service provider invoice method. The service provider issued monthly invoices for the recurring charges and the non-recurring charges were invoiced on September 1, 2019. USAC issued a funding commitment on November 14, 2019. The Beneficiary had issued several payments which exceeded its non-discounted share for recurring charges through November 2019. The Beneficiary paused further payment while the service provider applied the retroactive E-rate discounts, which were applied to the January 2020 invoice. The Beneficiary issued another payment on January 31, 2020.

On March 16, 2020, San Antonio School District discontinued in-person district operations and learning in response to the Covid-19 pandemic. This operational disruption contributed to the delayed payment of the balance of the non-recurring charges, which was issued on April 3, 2020, 93 days after the discounted bills were generated.

Other Matter No. 1, First 2014 E-Rate Modernization Order FCC 14-99 para. 235⁶ – Service Providers Billed the Beneficiary for the Discount Share of Costs While Using the SPI Method

⁶ See *Modernizing the E-Rate Program for Schools and Libraries*, Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order); *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997); *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202, 9218, para.47 (2003).

Condition

Two Service Providers billed the Beneficiary for the discounted share of service costs on several of the bills tested. In each case, the Beneficiary chose the SPI invoicing method. Under the SPI method, service providers bill the Beneficiary for the non-discounted share of eligible services and invoice USAC for the discounted share of eligible services. Beneficiaries are only responsible for paying service providers for their non-discounted share, plus the cost of any ineligible services. Specifically, the Beneficiary chose the SPI method to obtain reimbursement for eligible services under FRNs 1999070097 and 1999070156. However, for several months after FY 2019 began, the Service Providers for these FRNs—AT&T and Zayo, respectively—billed the Beneficiary for the full pre-discount cost of the approved FRNs before seeking reimbursement from USAC for the discount amounts. The following table shows the Service Providers’ delays in applying the FY 2019 discount rates to Beneficiary bills.

FRN	Service Provider	FY 2019 Discount Rate First Applied
1999070097	AT&T	January 2020
1999070156	Zayo	January 2020

Until the dates noted above, the Service Providers billed the Beneficiary monthly for the entire cost of the services provided under the FRNs, rather than only the non-discounted share plus the cost of ineligible services.

Cause

The Service Providers did not have adequate policies and procedures in place to ensure timely compliance with FCC Rules. Specifically, Zayo did not have established policies and procedures in place to ensure that it obtained and processed the information necessary to calculate discounts on a timely basis. AT&T requires beneficiaries to complete a Grid document with the details of the E-Rate funding for each FRN before it applies discounts on the applicable bills. However, it does not have procedures to obtain the Grid document from each beneficiary as soon as it receives USAC’s FCC Form 486 Notification Letter, confirming that services are approved for discounts. The Beneficiary did not submit the FRN 1999070097 information to AT&T until January 2020.

Effect

As a result of the above-described use of the SPI method, the Service Providers initially charged and collected more than the discount amount and risked ultimately charging the Beneficiary for more than the non-discounted amount for the services. While this practice may not always result

in over-collection by the Service Providers, such as, for example, when the Service Provider credits beneficiaries in a timely manner, it does increase the Service Providers' risk of violating FCC rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Providers ultimately applied E-Rate credits to the Beneficiary's bills. However, we note that the Beneficiary was entitled to E-Rate discounts, and the Beneficiary may experience cash flow issues if the Service Providers bill for the entire pre-discount amount under the SPI method or fail to credit their bills in a timely manner.

Recommendation

We recommend that the Service Providers implement controls and procedures to obtain and process FRN funding details so that they can apply discounts to their bills on a timely basis.

Service Provider Response (Zayo)

Zayo noted it does have a policy and procedure in place for the SPI program with USAC E-Rate. Specifically, Zayo does not apply the monthly discount (SPI) to a beneficiary's invoice until the Funding Request Number (FRN) is fully funded by USAC's E-Rate program. Further, although customers are billed for the full amount, the beneficiary only needs to submit payment for the discounted amount. Once the beneficiary's FRN is fully funded, the monthly discount is applied to the beneficiary's invoice going back to the beginning of the funding year or beginning of the billing effective date. Per Zayo's records, the Beneficiary's FRN did not fully fund until December 2019, at which time Zayo then applied the monthly discount on the January 2020 invoice going back to the beginning of July 2019.

Service Provider Response (AT&T)

Refer to **Attachment A** for the Service Provider's response.

Sikich Response

Based on the Service Provider's responses, we revised the Effect section of the original draft report to remove the reference to "improper use". However, under the SPI method, the Service Provider should not be charging the Beneficiary for the discounted share of the costs of eligible equipment and services. Rather, it should only charge the Beneficiary the non-discounted share of the costs of eligible equipment and services (plus the cost of any ineligible equipment and services) and should be seeking reimbursement of the discounted portion of the costs of the

eligible equipment and services directly from USAC.⁷ Therefore, our position regarding the other matter has not changed.

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	Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd. 15808, 15816 para. 24 (2004)	<i>Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services Accordingly, [the FCC clarified] prospectively that a failure to pay more than 90 days after completion of service (which is roughly equivalent to three monthly billing cycles) presumptively violates [the] rule that the beneficiary must pay its share.</i>

⁷ *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997) (*First Universal Service Order*) (“[W]e reject GTE’s proposal to permit service providers to demand full payment from schools and libraries, which would require institutions to secure direct reimbursement from the Administrator. We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries; *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101 paras. 44, 46-47, 49 (2003) (“In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the *Universal Service Order* that ‘requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.’”).

Other Matter	Criteria	Description
1	<i>Modernizing the E-rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order)</i>	<i>We take this opportunity to reiterate that E-rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.</i>
1	<i>Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997)</i>	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101 paras. 44, 46-47, 49 (2003)</i>	<i>We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted service be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, i.e., between receiving either reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place. In addition, we find that providing applicants with the right to choose which payment method to use</i>

		<p><i>will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the Universal Service Order that ‘requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.’ . . . In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i></p>
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Sikich CPA LLC

Attachment A: Service Provider Response

AT&T asserts that these Criteria do not support the audit findings. Since the Modernization Order cited here was released in 2014, AT&T has not been aware of any interpretation of that Order which would affect the way it handles SPI billing with its customers – until now.

Other Matter	Criteria	Description	AT&T Comments
1	E-Rate Modernization Order (FCC 14-99), at para.235	<i>Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.</i>	AT&T Response: For context, Para.235 of the E-rate Modernization order is part of Section C, “Simplifying the Invoicing and Disbursement Processes”. This section was focused on – and addressed only the removal of service providers who would no longer serve as a pass-through for payment and would no longer be required to approve Form 472s. There was no indication of a change to the existing SPI methodology that the parties employ, either in the changes noted in Appendix A (later incorporated into the C.F.R.) nor in the guidance and training put out by USAC following the release of the order. Processes followed by AT&T here resulted in the applicant (LAUSD) paying only the non-discounted cost for the eligible services on which discounts were provided and submitted by

			AT&T via the Form 474 SPI process.
1	CC Docket No. 96-45, Report and Order FCC 97-157 at para. 586	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.</i>	AT&T: This item resulted in the SPI process as an option. The BEAR option was implemented initially as Service Providers needed time to implement SPI. Later BEAR became a permanent option of Payment Method.
1	CC Docket No. 02-6, Second Report and Order and FNPRM, FCC 03-101 at para.47	<i>In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i>	AT&T Section C. of the Second Report and Order FNPRM was to address the topic of: Choice and Timing of Payment Method. Gave Applicants the choice of the method, required Service Providers to remit BEAR payments to Applicants within 20 days. Para 49. of this same section states: “Furthermore, service providers are under no obligation to provide discounts or reimbursements until a funding decision is approved, and we therefore find that it would be inappropriate to require providers to offer discounted service before any funding decision is made to authorize such discounts.”

AT&T takes issue with the following statements in the Effect: “improper use of the SPI method” and implies there is a “risk ultimately charging beneficiaries more than the non-discounted amount for the services.” AT&T did not improperly apply the SPI method and San Antonio ISD was not at risk for paying more than its non-discounted amount for the services. In fact, the Effect statements goes on to say “There is no monetary effect since the service providers ultimately applied E-Rate credits to the Beneficiary’s bills”

While San Antonio ISD's funding application was pending approval, AT&T charged San Antonio ISD for the total cost of the services contracted and purchased by San Antonio ISD each month, including the services funded in San Antonio ISD's FRN: 1999070097, and as per longstanding procedures of which USAC is aware.

Once USAC approved the funding and San Antonio ISD took all the necessary steps to receive the discounts, including but not limited to submitting the Form 486 to USAC and completing and submitting the AT&T Grid information², AT&T applied the discounts to San Antonio ISD's bills related to FRN: 1999070097 applicable to Funding Year 2019. In addition, San Antonio ISD signed the E-rate Rider attachment to their Contract for Services which advises of the processes used when SPI method is selected.

AT&T is not alone in handling the SPI method of billing this way. Like most other Service Providers, AT&T does not reflect discounts on the customers' bills until after the funding has been approved and the necessary steps outlined above have been taken by the Applicant. At that time, AT&T calculates the applicable discounts back to the Form 486 effective date per the Form 486 Notification Letter received from USAC. AT&T refers to these initial discounts reflected on the invoice as the "retroactive period". Subsequently, discounts will apply monthly on a going forward basis until the Contract Expiration date or until the end of the funding year.

In this instance with San Antonio ISD, the reason the discounts may have been applied later in time than they otherwise might have been is due to the following circumstances: First, FRN: 1999070097 was not approved by USAC until 11/14/2019, which was 4.5 months after the funding year began on 7/1/2019. San Antonio ISD then filed a Form 486, as required by the E-rate rules, for which AT&T received the 486 Notification from USAC on 11/24/2019. Finally, as set forth in AT&T's Welcome letter AT&T requires its SPI customers to complete a "Grid" document and certify to AT&T that the information in the "Grid" is accurate. AT&T sent the Grid request to San Antonio ISD on 11/18/2019, just 4 days after receiving the Funding Commitment Decision Letter. San Antonio ISD returned the completed Grid information on 1/8/2020. During the course of the Performance Audit of San Antonio Lysander Watson with AT&T provided a chronology of the events related to the Grid information submitted by San Antonio ISD via email to members of Cotton staff on 2/17/22. San Antonio made several changes to the initial Grid, which can cause delays and rework to ensure accurate discounting in accordance with program San Antonio ISD prior to submitting the first Form 474 SPI to USAC.

**INFO Item: Audit Released June2025
Attachment K
7/28/2025**

Attachment K

SL2021LR021

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

CHICAGO PUBLIC SCHOOLS
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES

USAC AUDIT No. SL2021LR021



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
CHICAGO PUBLIC SCHOOLS
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

November 7, 2022

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “Sikich” or “we”) audited the compliance of Chicago Public Schools (Beneficiary), Billed Entity Number (BEN) 135749, 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 the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with FCC Rules based on our audit.

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis: 1) evidence supporting the Beneficiary’s competitive bidding process undertaken to select its 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 audit disclosed two detailed audit findings and one other matter, discussed in the Audit Results and Recovery Action section below. For the purpose of

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this report, a “finding” is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period. An “other matter” is a condition that does not necessarily constitute a violation of FCC Rules but that warrants the attention of the Beneficiary, its Service Providers, and USAC management.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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 audit found that the Beneficiary and its Service Providers did not comply with FCC Rules, as provided in the two detailed findings discussed below and one other matter for consideration.

Audit Results	Monetary Effect	Recommended Recovery
Finding No. 1, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 (2018) and FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 (2018) – Service Provider Over-Invoiced the E-Rate Program for Amounts Not Reconciled to Its Bills. One of the Beneficiary’s Service Providers over-invoiced the E-Rate program for services funded under two Funding Request Numbers (FRNs).	\$1,024,644	\$0
Finding No. 2, 47 C.F.R. § 54.523 (2018) – Untimely Payment of the Beneficiary’s Non-Discounted Share to the Service Provider. The Beneficiary did not consistently pay the non-discounted share of its Service Providers’ invoices in a timely manner.	\$353,448	\$0
Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235 – Service Providers Billed the Beneficiary for the Discounted Share of Costs While Using the Service Provider Invoice (SPI) Method. Two Service Providers billed the Beneficiary for the discounted share of service costs under the SPI method.	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$1,378,092</u>	<u>\$0</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery 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 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 Invoicing Process: Office Hour Webinar, July 21, 2022)
- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Invoice Training Webinar, February 10, 2022)
- <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>

USAC records show the Beneficiary is currently subscribed to 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
1999040398	\$0
1999040400	\$0

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 Chicago, Illinois, that serves more than 300,000 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2019 as of August 17, 2021, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$37,114,821	\$3,829,342
Internal Connections	\$2,760,204	\$0
Total	<u>\$39,875,025</u>	<u>\$3,829,342</u>

The “amount committed” total represents three FCC Form 471, *Description of Services Ordered and Certification Form*, applications submitted by the Beneficiary for FY 2019 that resulted in

seven FRNs.² We selected a sample of five of the FRNs,³ which represent \$26,979,974 of the funds committed and \$3,829,342 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 conducted inquiries and inspected 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) considered the price of the eligible services as the primary factor when selecting its Service Providers. We also obtained and examined evidence to determine whether the Beneficiary waited the required 28 days from the date the FCC Form 470, *Description of Services Requested and Certification Form*, was posted on USAC's website before signing contracts with the selected Service Providers. Additionally, we examined the Service Provider contracts to determine whether the Beneficiary and the Service Providers properly executed the contracts.

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 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 of costs in a timely manner.

D. Reimbursement Process

We obtained and examined the invoices that the Service Providers submitted to USAC for reimbursement and performed procedures to determine whether the Service Providers had properly invoiced USAC. Specifically, we reviewed invoices associated with the SPI Forms for the 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.

² The Beneficiary's disbursement data included eight FRNs; however, because FRN 1999060142 was cancelled prior to the audit announcement date, we determined there were seven FRNs within the audit scope.

³ We tested FRNs 1999015409, 1999040398, 1999040400, 1999056590, and 1999069680.

Detailed Audit Findings

Finding No. 1, FCC Form 473, SPAC Form at Block 2 (2018) and FCC Form 474, SPI Form at Block 3 (2018) – Service Provider Over-Invoiced the E-Rate Program for Amounts Not Reconciled to Its Bills

Condition

One of the Beneficiary's Service Providers (Illinois Bell Telephone Company)⁴ over-invoiced USAC for services requested under two FRNs. Specifically:

- **FRN 1999040398.** For the majority of FY 2019, the Service Provider billed the Beneficiary at rates that exceeded the contractual rates. The Service Provider's bills also included charges related to early billings and late disconnections. The Service Provider adjusted its bills to the Beneficiary to remove the charges in late FY 2019 and in FY 2020.⁵ However, the Service Provider did not reimburse USAC for the adjustments. Specifically, USAC disbursed a total of \$2,466,315 to the Service Provider under this FRN (i.e., the total amount committed). However, we reviewed the Service Provider's bills for this FRN and determined that the discounted share of eligible charges for FY 2019 was \$1,964,659 (\$2,182,954 multiplied by the Beneficiary's 90 percent discount rate). The Service Provider therefore over-invoiced USAC by \$501,656 for FY 2019.

The scope of our audit was limited to FY 2019; therefore, we did not conduct any testing of FY 2018 FRNs. However, during our review of the Service Provider's bills, we noted credit adjustments of \$854,068 related to services provided during FY 2018.

- **FRN 1999040400.** Similar to FRN 1999040398, the Service Provider billed the Beneficiary at rates that exceeded the contractual rates for the majority of FY 2019. The Service Provider later adjusted its bills to remove the charges. However, the Service Provider did not reimburse USAC for the erroneous charges. Specifically, USAC disbursed a total of \$1,202,119 to the Service Provider under this FRN (i.e., the total amount committed). However, we reviewed the Service Provider's bills for this FRN and determined that the discount share of eligible charges for FY 2019 was \$679,131 (\$754,590 multiplied by the Beneficiary's 90 percent discount rate). The Service Provider therefore over-invoiced USAC by \$522,988 for FY 2019.

The scope of our audit was limited to FY 2019; therefore, we did not conduct any testing of FY 2018 FRNs. However, during our review of the Service Provider's bills, we noted credit adjustments of \$281,974 related to services provided during FY 2018.

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure the accuracy of amounts invoiced to USAC. The Service Provider stated that the process for calculating the E-Rate discounts for these FRNs was done manually and inadvertent errors were

⁴ Illinois Bell Telephone Company, LLC is a wholly owned subsidiary of AT&T.

⁵ Our review of the FY 2020 Service Provider bills was limited to adjustments and corrections related to FY 2019 services as testing of FY 2020 FRNs is outside the scope of our audit.

made. The Service Provider further stated that it has been reconciling its ongoing corrections to billed charges and intends to repay USAC when its reconciliation is complete.

Effect

The monetary effect of this finding for FY 2019 is \$1,024,644, as shown below. However, because USAC records show that the Service Provider reimbursed these amounts to the E-Rate program, we are not recommending recovery of E-Rate program funds.

Support Type	Monetary Effect	Recommended Recovery
Data Transmission and/or Internet Access FRN 1999040398	\$501,656	\$0
Data Transmission and/or Internet Access FRN 1999040400	\$522,988	\$0
Total	<u>\$1,024,644</u>	<u>\$0</u>

In addition to overpayments for FY 2019, we noted that the Service Provider bills contained \$1,136,042 in adjustments and credits related to services provided during FY 2018, which was outside the scope of our audit.

Recommendation

We recommend that the Service Provider implement policies, controls and procedures to ensure that the amounts invoiced to the E-Rate program are supported by its bills. Specifically, the Service Provider should ensure that adjustments to the Beneficiary's bills are also reflected on the SPIs it submits to the E-Rate program for the appropriate funding year(s).

Service Provider Response

Cotton provided AT&T with a spreadsheet containing their calculations through the August 2020 bills for the Condition above. AT&T then conducted a reconciliation of the FRNs referenced above and determined that there were inadvertent errors made during the manual processing of these FRNs. Specifically, adjustments that were due and had been provided to Chicago Public Schools had not been taken into consideration when the calculations for the 2019 funding were performed. AT&T provided their reconciliation spreadsheet to Cotton, which Cotton has adopted as the amounts due to USAC for this finding. The amounts referenced for both FRNs above have since been repaid to USAC.

In addition, AT&T also assessed bills from September 2020 through June 2022 and identified additional adjustments associated to Fund Year 2019 resulting in additional repayments which have also been sent to USAC. The amounts are as follows:

- *FRN 1999040400 \$ 34,554.19*
- *FRN 1999040398 \$ 125,995.90*

AT&T is conducting further analysis of billing adjustments associated for eligible products and circuits for Fund Year 2018 and will likewise return any funds required per program rules.

AT&T has reviewed the manual process for the services billed relative to the two FRNs on this SPIN and have incorporated a validation process to ensure adjustments on previously billed charges are considered in the calculation and the transactions are aligned to the appropriate fund year.

Auditor Response

We acknowledge the additional adjustments AT&T identified in its analysis of its Service Provider bills from September 2020 through July 2022. These Service Provider bills are outside the scope of our audit. Accordingly, we have not updated the findings or recommendations in this report. However, outside the scope of this audit, we recommend that AT&T provide USAC with documentation related to the additional adjustments that it identified for FY 2019 and the analysis conducted for FY 2018 for USAC's review and consideration.

Finding No. 2, 47 C.F.R. § 54.523⁶ (2018) – Untimely Payment of the Beneficiary's Non-Discounted Share to the Service Provider

Condition

The Beneficiary did not consistently pay the non-discounted share of its Service Providers' bills in a timely manner. Specifically, although FCC Rules require beneficiaries to remit payment within 90 days of receiving services, we identified 34 instances in which the Beneficiary did not pay its non-discounted share within 90 days for three FRNs, as follows:

FRN	Account Number ⁷	Invoice Date	Payment Date	No. of Days Between Invoice and Payment Dates	Payment Amount
1999015409	831-000-1417 036	1/19/2020	8/21/2020	215	\$326
1999015409	831-000-1417 036	2/19/2020	8/14/2020	177	\$1,255
1999015409	831-000-1417 036	3/19/2020	8/14/2020	148	\$1,255
1999015409	831-000-1417 036	4/19/2020	8/21/2020	124	\$1,255
1999015409	831-000-1417 036	5/19/2020	8/21/2020	94	\$1,255
Subtotal					\$5,346
1999040398	217 S66-7050 050	7/21/2019	1/10/2020	173	\$25,800
1999040398	217 S66-7050 050	8/21/2019	1/10/2020	142	\$25,800
1999040398	217 S66-7050 050	9/21/2019	1/10/2020	111	\$25,800
1999040398	217 S66-7050 050	11/21/2019	3/27/2020	127	\$25,800
1999040398	217 S66-7050 050	12/21/2019	7/24/2020	216	\$25,800
1999040398	217 S66-7050 050	1/21/2020	7/24/2020	185	\$25,800
1999040398	217 S66-7050 050	2/21/2020	7/24/2020	154	\$25,800
1999040398	217 S66-7050 050	3/21/2020	4/24/2020	125	\$25,800
1999040398	217 S66-7050 050	4/21/2020	7/24/2020	94	\$25,800
1999040398	217 S66-7050 050	5/21/2020	8/21/2020	92	\$25,800
1999040398	833-000-9209 977	9/11/2019	5/29/2020	261	\$307
1999040398	833-000-9209 977	10/11/2019	5/29/2020	231	\$307

⁶ 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 at para. 24 (2004).

⁷ The Service Provider provided the services requested under FRNs 1999040398 and 1999040400 through multiple accounts.

FRN	Account Number ⁷	Invoice Date	Payment Date	No. of Days Between Invoice and Payment Dates	Payment Amount
1999040398	833-000-9209 977	11/11/2019	5/29/2020	200	\$307
1999040398	833-000-9209 977	12/11/2019	5/29/2020	170	\$307
1999040398	833-000-9209 977	1/11/2020	5/29/2020	139	\$307
1999040398	833-000-9209 977	2/11/2020	5/29/2020	108	\$307
1999040398	833-000-9209 977	5/11/2020	8/21/2020	102	<u>\$299</u>
Subtotal					<u>\$260,141</u>
1999040400	217 S66-4156 156	7/13/2019	1/10/2020	181	\$6,862
1999040400	217 S66-4156 156	8/13/2019	1/10/2020	150	\$7,000
1999040400	217 S66-4156 156	1/13/2020	7/24/2020	193	\$10,833
1999040400	217 S66-4156 156	2/13/2020	7/24/2020	162	\$10,833
1999040400	217 S66-4156 156	3/13/2020	7/24/2020	133	\$10,833
1999040400	217 S66-7170 170	7/21/2019	1/10/2020	173	\$6,000
1999040400	217 S66-4156 156	8/21/2019	1/10/2020	142	\$6,000
1999040400	217 S66-4156 156	9/21/2019	1/10/2020	111	\$6,000
1999040400	217 S66-4156 156	12/21/2019	3/27/2020	97	\$6,000
1999040400	217 S66-4156 156	2/21/2020	7/24/2020	154	\$5,047
1999040400	217 S66-4156 156	3/21/2020	7/24/2020	125	\$6,283
1999040400	217 S66-4156 156	4/21/2020	7/24/2020	94	<u>\$6,270</u>
Subtotal					<u>\$87,961</u>
Total					<u>\$353,448</u>

Cause

The Beneficiary withheld payment of its non-discounted share of the Service Providers' bills until the Service Providers resolved billing disputes identified over the course of the funding year.

Effect

The monetary effect of this finding is \$353,448. However, because the Beneficiary ultimately paid for the funded services, we are not recommending recovery of E-Rate program funds.

Support Type	Monetary Effect	Recommended Recovery
Data Transmission and/or Internet Access FRN 1999015409	\$5,346	\$0
Data Transmission and/or Internet Access FRN 1999040398	\$260,141	0
Data Transmission and/or Internet Access FRN 1999040400	<u>\$87,961</u>	<u>0</u>
Total	<u>\$353,448</u>	<u>\$0</u>

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. Updated procedures should ensure the Beneficiary is able to identify and pay non-disputed

amounts, rather than withhold payment of the entire bill, when there is disagreement about charges due on a Service Provider's bill.

Beneficiary Response

As discussed with the auditors, Chicago Public Schools is aware of the FCC rules that require beneficiaries to remit payment within 90 days of receiving services.

The 34 instances of payments of the non-discounted share past the 90-day requirement identified in the audit were due to the egregious billing errors from the service provider. Since that time, CPS has implemented steps to ensure that payment is made within 90 days of service completion, even if there may be an adjustment after billing errors are resolved.

On a monthly basis, CPS reviews each account and line item for accuracy. For accounts and individual line items that align with contracted rates, CPS pays the non-disputed amount as expected.

If base rates per line, circuit, or service do not align with contracted rates, CPS estimates the correct amount and pays the discounted portion based on the estimate. Once the billing dispute is corrected, CPS then reconciles with the service provider and pays or accepts an account credit based on the final reconciliation.

Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235⁸ – Service Providers Billed the Beneficiary for the Discounted Share of Costs While Using the SPI Method

Condition

We obtained and examined the Service Provider bills to determine whether the Service Provider only billed the Beneficiary for the non-discounted portion of costs on the bills, plus the costs of any ineligible equipment and/or services. Specifically, for FY 2019, the Beneficiary elected to receive E-Rate reimbursement from USAC for the following FRNs using the SPI method at the following discount rates:

FRN	Service Provider	Discount Rate
1999015409	AT&T Corp.	90%
1999040398	Illinois Bell Telephone Company, LLC	90%
1999040400	Illinois Bell Telephone Company, LLC	90%

Under the SPI method, service providers bill beneficiaries for only the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the remaining discounted share of eligible services. Thus, under the SPI method, beneficiaries are responsible for paying service providers only for the non-discounted share of costs (plus the cost of any ineligible

⁸ See *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, FCC 14-99, para. 235 (2014) (*First 2014 E-Rate Order*). See also *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, at para. 586 (1997); *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 46-47 (2003) (*Second Report and Order*); 47 CFR 54.514(c) (2018); 47 C.F.R. § 54.504(f)(5) (2018) and SPI Form, FCC Form 474, Block 3 (2018).

services) and the service provider is required to invoice USAC for the discounted share of costs of eligible equipment and services in order to receive payment.⁹ However, throughout FY 2019, two of the Beneficiary's Service Providers billed the Beneficiary for the *full pre-discount costs* of the eligible services for the approved FRNs rather than only the Beneficiary's non-discounted share of the costs (plus the costs of any ineligible equipment and services). The following table illustrates the Service Providers' delays in applying the FY 2019 discount rates to the Beneficiary's bills.

FRN	Account No. ¹⁰	FY 2019 Discount Rate First Applied
1999015409	831-000-1417 036	July 19, 2020
1999040398	217 S66-7050 050	May 21, 2020
	312 R18-0348 800 6	November 21, 2020
	833-000-9209 977	December 11, 2020
1999040400	217 S66-4156 156	May 13, 2020
	217 S66-7170 170	May 21, 2020

Until the dates noted above, the Service Providers billed the Beneficiary monthly for the entire cost of the services provided under the FRNs, rather than only the non-discounted share plus the cost of ineligible services.

Cause

The Service Provider did not have adequate controls and procedures in place to ensure compliance with FCC Rules.

Effect

As a result of the above-described use of the SPI method, the Service Providers charged and collected more than the Beneficiary's non-discounted portion of costs of the eligible services. While this practice may not always result in over-collection by the Service Providers, such as, for example, when the Service Provider credits beneficiaries in a timely manner, it does increase the Service Providers' risk of violating FCC rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Providers ultimately applied E-Rate credits to the Beneficiary's bills. However, we note that the Beneficiary was entitled to a 90 percent discount rate on all the FRNs, and the Beneficiary may experience cash flow issues if Service Providers bill for the entire pre-discount amount under the SPI method or fail to credit their bills in a timely manner.

Recommendation

We recommend that the Service Providers implement controls and procedures to ensure that they apply discounts to their bills on a timely basis and ensure that the Beneficiary is only billed for its non-discount share, plus the costs of ineligible services.

Service Provider Response

Refer to Attachment A for AT&T's response.

⁹ *Id.*

¹⁰ One of the Beneficiary's Service Providers provided the services requested under FRN 1999040398 and 1999040400 through multiple accounts.

Auditor Response

We revised the Effect to remove the reference to “improper use”. However, we continue to believe that the Service Providers’ practice of adjusting their bills to retroactively apply discounts increases the risk of error and potential Beneficiary overpayment of its non-discount share.

Criteria

Finding	Criteria	Description
1	FCC Form 473, Service Provider Annual Certification (SPAC) Form, OMB 3060-0856, at Block 2 (2018)	<p><i>I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by the Service Provider contain requests for universal service support for service which have been billed to the Service Provider’s customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal service support by the fund administrator.</i></p> <p><i>I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by the Service Provider are based on bills or invoices issued by the Service Provider to the Service Provider’s customers on behalf of schools, libraries, and consortia of those entities as deemed eligible for universal service support by the fund administrator, and exclude any charges previously invoiced to the fund administrator for which the fund administrator has not issued a reimbursement decision.</i></p> <p><i>I certify that the invoices submitted by the Service Provider to the Billed Entity are for equipment and services eligible for universal service support by the Administrator and exclude any charges previously invoiced to the Administrator by the Service Provider.</i></p>
1	FCC Form 474 Service Provider Invoice (SPI) Form at Block 3 (2018)	<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 commitments.</i></p> <p><i>B. I certify that the certifications made on the Service Provider Annual Certification Form (FCC Form 473) by the Service Provider are true and correct.</i></p>
2	47 C.F.R. §54.523 (2018)	<p><i>An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product</i></p>

Finding	Criteria	Description
		<i>constitutes a rebate of the non-discount portion of the supported services.</i>
2	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>While our rules do not set forth a specific timeframe for determining when a beneficiary has failed to pay its non-discounted share, we conclude that a reasonable timeframe is 90 days after delivery of service. Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services. . . . Accordingly, . . . 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>

Other Matter	Criteria	Description
1	47 C.F.R. § 54.504(f)(5) (2018)	<i>The service provider listed on the FCC Form 473 certifies 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.</i>
1	<i>Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order)	<i>We take this opportunity to reiterate that E-rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the Service Provider through the SPI process, the Service Provider will continue to file a SPI form with USAC to receive reimbursement.</i>
1	<i>Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 234, n.567 (2014) (First 2014 E-Rate Order)	<i>Applicants also have the option of using the Service Provider Invoicing (SPI) process. Under the SPI process the applicant pays only the reduced cost of the services directly to the service provider, and then the service provider must file an FCC Form 47[4] (SPI Form) with USAC to receive its reimbursement.</i>
1	<i>Federal-State Joint Board on Universal Service</i> , CC Docket	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and</i>

	No. 96-45, Report and Order, FCC 97-157, at para. 586 (1997)	<i>libraries and would disproportionately affect the most disadvantaged schools and libraries.</i>
1	47 CFR 54.514(c) (2018)	<i>Choice of payment method. Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full, undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 44, 46-47 (2003)</i>	<i>We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted services may be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, i.e., between receiving either reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place. In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the Universal Service Order that 'requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.' . . . In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i>

Sikich CPA LLC

ATTACHMENT A: SERVICE PROVIDER RESPONSE

This issue was raised by Cotton in two other matter [sic], citing para 235 of the E-Rate Modernization Order (FCC 14-99), and AT&T provided responses to Cotton on both those matters. The two other matters and the responses provided by AT&T are listed below. Specifically:

Los Angeles Unified School District BEN: 143454
FRNs: 1999054400
Performance Audit: SL2021LR016
Response submitted: 2/11/2022

San Antonio ISD
BEN: 141544
Performance Audit: SL2021LR020
FRN: 1999070097
Response submitted: 11/3/2022

Other Matter	Criteria	Description	AT&T Comments on LAUSD
1	E-Rate Modernization Order (FCC 14-99), at para.235	<i>Thus, when the applicant pays only the discounted cost of the services directly to the Service Provider through the SPI process, the Service Provider will continue to file a SPI form with USAC to receive reimbursement.</i>	AT&T Response: For context, Para.235 of the E-rate Modernization order is part of Section C, “Simplifying the Invoicing and Disbursement Processes”. This section was focused on – and addressed only the removal of Service Providers who would no longer serve as a pass through for payment and would no longer be required to approve Form 472s. There was no indication of a change to the existing SPI methodology that the parties employ, either in the changes noted in Appendix A (later incorporated into the C.F.R.) nor in the guidance and training put out by USAC following the release of the order. Processes followed by AT&T here resulted in the applicant (LAUSD) paying only the non-discounted cost for the eligible services on which discounts were provided and submitted by AT&T via the Form 474 SPI process.
			AT&T Comments on San Antonio ISD
1	CC Docket No. 96-45, Report and Order FCC 97-157 at para. 586	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.</i>	AT&T: This item resulted in the SPI process as an option. The BEAR option was implemented initially as Service Providers needed time to implement SPI. Later BEAR became a permanent option of Payment Method.

Other Matter	Criteria	Description	AT&T Comments on LAUSD
1	CC Docket No. 02-6, Second Report and Order and FNPRM, FCC 03-101 at para.47	<i>In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i>	AT&T: Section C. of the Second Report and Order FNPRM was to address the topic of: Choice and Timing of Payment Method. Gave Applicants the choice of the method, required Service Providers to remit BEAR payments to Applicants within 20 days. Para 49. of this same section states: “Furthermore, Service Providers are under no obligation to provide discounts or reimbursements until a funding decision is approved, and we therefore find that it would be inappropriate to require providers to offer discounted service before any funding decision is made to authorize such discounts.”

Here again, regarding Chicago Public Schools, AT&T takes issue with the following statements under the section titled Effect: “improper use of the SPI method” and implies there is a “risk ultimately charging beneficiaries more than the non- discounted amount for the services.”

AT&T did not improperly apply the SPI method and Beneficiaries such as Chicago Public Schools are not at risk for paying more than its non-discounted amount for the services. In fact, statements under the title “Effect” acknowledge that “There is no monetary effect since the Service Providers ultimately applied E-Rate credits to the Beneficiary’s bills”

While Chicago Public Schools funding application was pending approval, AT&T charged Chicago Public Schools for the total cost of the services contracted and purchased by Chicago Public Schools each month, including the services funded in Chicago Public Schools FRN: 1999015409, 1999040398 and 1999040400, and as per longstanding procedures of which USAC is aware.

Once USAC approved the funding and Chicago Public Schools took all the necessary steps to receive the discounts, including but not limited to submitting the Form 486 to USAC and completing and submitting the AT&T Grid information¹¹, AT&T applied the discounts to

¹¹ The AT&T Grid document is a document that applicants must complete for AT&T to provide the details of the Applicant’s E-rate funding, such as, the Billing Account Numbers which bill for the services that should be discounted, and the applicable discount percentage based on cost allocation required. AT&T cannot apply E-rate

Chicago Public Schools bills related to FRNs in the table below applicable to Funding Year 2019.

AT&T is not alone in handling the SPI method of billing this way. Like most other Service Providers, AT&T does not reflect discounts on the customers' bills until after the funding has been approved and the necessary steps outlined above have been taken by the Applicant. At that time, AT&T calculates the applicable discounts back to the Form 486 effective date per the Form 486 Notification Letter received from USAC. AT&T refers to these initial discounts reflected on the invoice as the "retroactive period". Subsequently, discounts apply monthly on a going forward basis until the Contract Expiration date or until the end of the funding year.

FRN	FY 2019 Discount Rate First Applied	FRN Funded Date	486 NL received Date	GRID Sent Date	GRID Received Date
1999015409	19-Jul-20	10/17/2019	11/10/2019	1/18/2020	6/17/2020
1999040398	21-May-20	10/17/2019	11/10/2019	10/18/2019	11/12/2019
1999040400	13-May-20	10/17/2019	11/10/2019	10/18/2019	11/12/2019

The FRNs referenced above were not funded until 3.5 months into the fund year. Although the customer elected SPI, there were ongoing regular calls with the customer and the consultant to discuss their network, billing concerns and funding disbursements. Typically, discounts begin within a couple of billing cycles once all required steps have been completed; however, in this instance, internal records indicate that the customer requested a pause of E-rate discounts until all corrections to their billed rates had been applied. The customers consultant contacted AT&T on 5/6/2020 and requested that discounts resume.

The bottom line is that AT&T, like other Service Providers, would not and should not have to cover Chicago Public Schools or any customer's service expenses by applying earlier discounts for the non-discounted share (i.e. "float" the customer) before the customer's funding is approved by USAC and the other necessary steps (including the submission of the Grid document) are taken. Indeed, it is not possible for a Service Provider to provide discounts for services at the time of commencement of services because the Service Provider does not even know at that time what services are deemed eligible for discounts by USAC. Put differently, AT&T could not have applied discounts to services in July because AT&T would not have known in July exactly what services needed to be discounted.

AT&T's process – explained in its Welcome Package - requires the Applicants to identify the discounted services. Subsequently, AT&T reimburses applicants after they provide AT&T the information. For Chicago Public Schools, there was no actual harm in this situation because Chicago Public Schools was ultimately only responsible to pay its undiscounted share of the

discounts on bills until the customer verifies the details of their funding approval by submitting the Grid. For large customers like LAUSD, this process is critical to ensure the discounts are applied to the service for which the applicants was approved. The instructions for completing the Grid are contained in an email AT&T sends to customers upon notification of funding, known as the Welcome Package.

eligible services for which it received discounts as well as any ineligible services billed on the same billing account numbers.

**INFO Item: Audit Released June2025
Attachment L
7/28/2025**

Attachment L

SL2021LR027

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

GILA COUNTY INFORMATION EDUCATION TECHNOLOGY CONSORTIUM

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

USAC AUDIT No. SL2021LR027



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
GILA COUNTY INFORMATION EDUCATION TECHNOLOGY CONSORTIUM
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

March 3, 2022

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

Dear Ms. Delmar:

Sikich CPA LLC¹ (referred to as “Sikich” or “we”) audited the compliance of Gila County Information Education Technology Consortium (Beneficiary), Billed Entity Number (BEN) 17019467, using regulations and orders governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, Federal Communications Commission [FCC] Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with the FCC Rules based on our audit.

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

¹Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

this report, a “finding” is a condition that shows evidence of non-compliance with FCC Rules that were in effect during the audit period. An “other matter” is a condition that does not necessarily constitute a violation of FCC Rules but that warrants the attention of the Beneficiary, its Service Provider and USAC management.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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 audit disclosed that the Beneficiary and its Service provider did not comply with the FCC Rules as set forth in the one detailed audit finding and one other matter discussed below.

Audit Results	Monetary Effect	Recommended Recovery
Finding No. 1, 47 C.F.R. § 54.523 – Beneficiary Did Not Pay Its Non-Discount Share to the Service Provider. The Beneficiary did not pay the non-discounted share of a Service Provider’s invoice in a timely manner.	\$20,609	\$0
Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99,para. 235 – Service Provider Billed the Beneficiary for the Discount Share of Services. The Beneficiary’s Service Provider improperly billed the Beneficiary for the discounted share of the cost of services.	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$20,609</u>	<u>\$0</u>

USAC Management Response

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

- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/> (Step 5 Invoicing, please see Invoice Filing Deadlines Section)
- <https://www.usac.org/e-rate/learn/webinars/> (“E-Rate Invoice Training Webinar”, please see 26:25 to 28:30 and 1:01:40 to 1:02:30)

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.

FRN	Recovery Amount
1999078045	\$0

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 consortium located in Globe, Arizona that serves more than 8,850 students.

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

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$17,868,917	\$20,609
Total	\$17,868,917	\$20,609

The “amount committed” total represents one FCC Form 471 *Description of Services Ordered and Certification Form* application submitted by the Beneficiary for FY 2019 that resulted in two Funding Request Numbers (FRNs). We selected both FRNs, which represent 100 percent of the

funds committed and disbursed during the audit period. Using the two FRNs, 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 the FCC Rules, we examined documentation to verify whether the Beneficiary used the funding effectively and whether it had adequate controls in place. We conducted 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 selected a Service Provider that provided eligible services, and 2) considered the price of the eligible services as the primary factor when selecting the Service Provider. We also obtained and examined evidence to determine whether the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing a contract with its Service Provider. We examined the Service Provider contract to determine whether it was properly executed.

C. Invoicing Process

We obtained and examined invoices for which USAC disbursed payment to determine whether the services identified on the 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 of costs in a timely manner.

D. Reimbursement Process

We obtained and examined the 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 agreement and were eligible in accordance with the E-Rate program Eligible Services List.

Detailed Audit Finding and Other Matter

Finding No. 1, 47 C.F.R. § 54.523 (2018) – Beneficiary Did Not Pay Its Non-Discount Share to the Service Provider Timely

Condition

As of February 17, 2022, the date of our audit exit conference, the Beneficiary had not paid the non-discounted share of a Service Provider's bill for special construction costs. Specifically, on August 1, 2020, Cable One (doing business as [dba] Sparklight) (Service Provider) invoiced the Beneficiary \$2,290 for its non-discounted share of a \$22,899 invoice for installation fees under FRN 1999078045. Although FCC Rules require beneficiaries to remit payment within 90 days of receiving services,² the Beneficiary had not yet remitted payment to the Service Provider 565 days later.

Cause

The State of Arizona funded the Beneficiary's non-discounted share of the special construction costs and it assumed responsibility for paying the Service Provider bills. The State's E-Rate Director noted that the State would not remit payment to the Service Provider until the project was 100 percent complete and had been inspected and accepted.

Effect

The monetary effect of this finding is \$20,609, which represents the total amount invoiced to USAC for installation fees under FRN 1999078045. However, because the State of Arizona paid the Service Provider the Beneficiary's non-discount share of total costs for this project on June 15, 2023, we are not recommending recovery of any funds for this finding.

Support Type	Monetary Effect	Recommended Recovery
Internet Access FRN 1999078045	\$20,609	\$0
Total	\$20,609	\$0

Recommendation

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

Beneficiary Response

Finding is correct.

- *This is a multiyear Special Construction project.*
- *The net cost to the beneficiary (Gila Consortium) is \$0.*

² See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, FCC 04-190 para. 24 (2004). (*Fifth Report and Order*).

- *The State of Arizona has an approved “State Match” program. The vendor will receive the state match payment (10%) in a single lump sum at the completion of the project. There is no mechanism in place for “incremental” payments and the vendor has agreed to receive the 10% at the close of the completed project.*

Auditor Response

FCC Rules require that the Beneficiary pay the non-discount share of E-Rate funded services within 90 days after the services are received. Failure to do so violates this requirement.³ If the State of Arizona will not make incremental payments of the State match this does not negate the Beneficiary's responsibility to pay its non-discount share of Service Provider bills within 90 days. Accordingly, our position regarding this finding has not changed.

However, we updated the effect and recommended recovery for this finding in June 2023 to reflect the State's payment of the Beneficiary's non-discount share.

Other Matter No. 1, First 2014 E-Rate Order FCC 14-99, para. 235⁴ – Service Provider Billed the Beneficiary for the Discount Share of Services

Condition

One of the Beneficiary's Service Providers, Cable One (doing business as [dba] Sparklight), billed the Beneficiary for the discounted share of the cost of services. Specifically, the Beneficiary chose the SPI invoicing method for FRN 1999078045, which had a 90 percent discount rate. Under the SPI method, service providers bill the beneficiary for the non-discounted share of eligible services and invoice USAC for the discounted share of eligible services. The beneficiary is only responsible for paying service providers its non-discounted share, plus the cost of any ineligible services. However, the Service Provider billed the Beneficiary for the total pre-discount cost of the services provided under FRN 1999078045 before seeking reimbursement from USAC for the discount amount.

Cause

The Service Provider did not have established policies and procedures in place to ensure that it complied with the FCC Rules for obtaining reimbursement under the SPI method.

Effect

As a result of the above-described use of the SPI method, the Service Provider initially collected more than the discount amount and risked ultimately charging the Beneficiary more than the non-discounted amount for the services. While this practice may not, with the timely application of credits or allowance for an option to short pay, result in over-collection by the Service Provider, it does increase the Service Provider's risk of violating FCC rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Provider ultimately applied E-Rate credits to the Beneficiary's bills. However, we note that the Beneficiary was entitled to a 90 percent discount rate and the Beneficiary may experience cash flow issues if the Service Provider bills for the entire pre-discount amount under the SPI method or fails to credit its bills in a timely manner.

³ See *Fifth Report and Order*, FCC 04-190, para. 24 (2004) ("While our rules do not set forth a specific timeframe for determining when a beneficiary has failed to pay its non-discounted share, we conclude that a reasonable timeframe is 90 days after delivery and service.")

⁴ See also *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order FCC 97-157, para. 586 (1997), *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Future Notice of Proposed Rulemaking (FNPRM), FCC 03-101, paras. 44, 46-47 (2003).

Recommendation

We recommend that the Service Provider implement controls and procedures to ensure it only bills the Beneficiary for the non-discount share of costs for services reimbursed under the SPI method.

Service Provider Response

1. *When service is initiated and invoicing started, it is the applicant's (Gila County's) responsibility to file an FCC Form 486 with USAC. The Form 486 can only be filed after the Funding Commitment Decision Letter (FCDL) with a positive funding commitment has been issued by USAC. The FCC Form 486 informs USAC that the service provider started services and that Cable One can now invoice USAC and receive reimbursement. The Form 486 can be filed early if certain criteria are met, allowing Cable One to apply service provider invoice (SPI) discounts at the beginning of the funding year. However, the deadline to file an FCC Form 486 is 120 days after the date of the FCDL or 120 days after the service start date, whichever is later. If the deadline is missed, USAC will adjust the service start date and the funding commitment may be reduced as a penalty. In a case like this, if we were to only bill the non-discounted portion and USAC penalizes the customer, Cable One would be over discounting the service provided to the applicant and would have to reverse and apply the correct amount. Instead, service is provided and invoiced until the Form 486 is filed and approved. Once approved, the service provider knows the applicant is in compliance with the Children's Internet Protection Act (CIPA) as well as the date to begin applying discounts (service start date).*
2. *Per USAC rules, once funding is approved the customer is only obligated to pay their non-discounted portion if they elect the SPI discount method. As a service provider, we give the customer the option to short pay their invoice (only paying their non discounted portion) while we apply the discounts in a timely manner to avoid over payment. However, if the customer happens to make a full payment on the pre-discount amount before discounts are applied and it results in overpayment from the customer, we will either issue a refund check or leave the credit on the account depending on the customer's request. I've included some examples of USAC informing applicants that they only have to pay the non-discounted portion.*
 - a. **FCC 14-99 E-Rate Modularization Order 235.** *This change we adopt today will only affect applicants that avail themselves of the BEAR process and elect to pay the entire cost of the discounted service in advance of USAC's reimbursement. Some commenters express concern that applicants should continue to have the option of the SPI process, paying only their portion of the price of eligible services and requiring the service provider to wait for payment from USAC for the remaining portion of the price of the eligible services.⁵⁷⁰ We take this opportunity to reiterate that E-rate applicants continue to have the option of electing BEAR or SPI reimbursement.⁵⁷¹ Thus, when the applicant pays only the discounted cost of the services⁵ directly to the*

⁵ The Service Provider highlighted portions of its response in yellow as shown here.

- service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.
- b. "Applicants are required to pay the non-discount portion of the cost of eligible products and services." <https://www.usac.org/e-rate/applicant-process/invoicing/obligation-to-pay/>
 - c. **FCC 14-99 E-Rate Modularization Order** Amend § 54.504 to read as follows: (iii) The billed entity will pay the non-discount portion of the cost of the goods and services to the service provider(s).
3. When we receive Program Integrity Assurance reviews from USAC, it requests that the bill display the current charges. I attached an example worksheet provided by USAC, when entering the current charges on the spreadsheet, we enter the pre-discount amount.

BILLS:

Either A:

If the request for reimbursement for each FRN per Invoice is comprised of 20 bills or less (sub-bills and sub accounts may contribute to this figure):

Please submit:

- I. A copy of the summary page/s for the bill/s sent to Applicant, to show:
 - a. Bill Date,
 - b. Service Provider Name,
 - c. Bill-To Entity,
 - d. Current Charges,
 - e. Description of Products / Services Delivered,
 - f. Period of Service (for Digital Transmission and/or Internet Access),
 - g. Individual Call Detail NOT required (for phone bills).

Once USAC issues the FCDL, Cable One applies the permissible E-Rate discount as a credit to your account. Please see below credit as applied:

Previous Balance/Payment Received by 10/01/20		
09/30	Previous Balance	0.00
	Total Remaining Balance	\$0.00
Adjustments & Other Activity		
09/30	Transfer From	22,899.24C R
09/30	Transfer From	22,899.24
09/30	Transfer From	22,899.24
09/30	E-Rate Discount	20,609.32C R
09/30	E-Rate Discount	2,289.92CR
	Total Adjustments & Other Activity	\$0.00
Partial Month Charges		

Auditor Response

The FCDL for FRN 1999078045 was dated May 13, 2020. USAC approved the Beneficiary's FCC Form 486 on May 20, 2020. The Service Provider's August 1, 2020 invoice did not apply a credit for the discounted share of the costs of the E-Rate eligible services. Based on the information provided with the Service Provider's response, credit for the discounted amount of

E-Rate eligible services were not applied to the Beneficiary's bills until September 30, 2020. Accordingly, we made no changes to the Other Matter.

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	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>While our rules do not set forth a specific timeframe for determining when a beneficiary has failed to pay its non-discounted share, we conclude that a reasonable timeframe is 90 days after delivery of service. Allowing schools and libraries to delay for an extended time their payment for services would subvert the intent of [the] rule that the beneficiary must pay, at a minimum, ten percent of the cost of supported services. . . . Accordingly, . . . 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>

Other Matter	Criteria	Description
1	<i>Modernizing the E-Rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking FCC 14-99, para. 235 (2014)	<i>We take this opportunity to reiterate that E-rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.</i>
1	<i>Federal-State Joint Board on Universal Service</i> , CC Docket No. 96-45, Report and	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would</i>

	Order FCC 97-157, para. 586 (1997)	<i>disproportionately affect the most disadvantaged schools and libraries.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and Future Notice of Proposed Rulemaking (FNPRM), FCC 03-101, paras. 44, 46-47</i>	<i>We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted services may be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, i.e., between receiving either reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place. In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the Universal Service Order that 'requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.'</i>

Sikich CPA LLC

INFO Item: Audit Released June2025

Attachment M

7/28/2025

Attachment M

SL2022LR001



Lodi Unified School District

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

USAC Audit No. SL2022LR001

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EXECUTIVE SUMMARY

November 1, 2023

Dr. Cathy Nichols-Washer, Superintendent
Lodi Unified School District
1305 E. Vine Street
Lodi, CA 95240

Dear Dr. Nichols-Washer:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Lodi Unified School District (Beneficiary), Billed Entity Number (BEN) 144356, using regulations governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as orders and other program requirements (collectively, Federal Communications Commission [FCC] Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination disclosed one detailed audit finding (Finding) and two other matters (Other Matters) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the FCC Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary's and USAC Management's attention.

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

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

Sincerely,



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

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



AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding: 47 C.F.R. § 54.514; First 2014 E-Rate Order, FCC 14-99, paras. 233-235 (2014) – Failure to Reimburse E-Rate Funds from Service Provider. The Service Provider did not reimburse the Beneficiary for the discounted portion of services.	\$68,979	\$68,979	\$0
Other Matter #1: First 2014 E-Rate Order, FCC 14-99, para. 235 (2014) – Service Provider Billed the Beneficiary for the Discount Share of Services. The Service Provider billed the Beneficiary 100 percent of the cost of services, instead of the non-discounted portion, as required by the SPI method.	\$0	\$0	\$0
Other Matter #2: First 2014 E-Rate Order, FCC 14-99, para. 235 (2014) – Service Provider Billed the Beneficiary for the Discount Share of Services. The Service Provider billed the Beneficiary 100 percent of the cost of services, instead of the non-discounted portion, as required by the SPI method.	\$0	\$0	\$0
Total Net Monetary Effect	\$68,979	\$68,979	\$0

USAC MANAGEMENT RESPONSE

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

- <https://www.usac.org/e-rate/applicant-process/invoicing/>
- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>
- <https://www.usac.org/e-rate/learn/webinars> (E-Rate Fall Training: Invoicing, November 09, 2023)
- <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 and Service Provider are currently subscribed to the E-Rate 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
2099059026	\$68,979

PURPOSE, SCOPE, BACKGROUND, AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for Funding Year 2020 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$107,074	\$92,987
Basic Maintenance of Internal Connections	\$159,298	\$496,468
Internet Access	\$497,498	\$107,074
Total	\$763,870	\$696,529

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

The committed total represents two FCC Form 471 applications with eight Funding Request Numbers (FRNs). AAD selected four of the FRNs,¹ which represent \$610,006 of the funds committed and \$543,697 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2020 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a School District located in Lodi, California that serves over 28,000 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the E-Rate program. AAD obtained and examined documentation to determine whether it supported the Beneficiary's effective use of funding and ensured that adequate controls existed to determine whether funds were used in accordance with the FCC Rules. AAD conducted inquiries and performed inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which funding was requested. AAD also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

B. Competitive Bidding Process

AAD obtained and examined documentation to determine whether the Beneficiary properly selected a Service Provider that provided eligible services and considered the price of the eligible services and goods as the primary factor in the competitive bidding process. AAD also obtained and examined evidence to determine if the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected Service Providers. AAD examined the Service Provider contracts to determine whether they were properly executed.

C. Invoicing Process

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

¹ The FRNs included in the scope of this audit were: 2099059026, 2099059045, 2099076741, and 2099087048.

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDING AND OTHER MATTERS

FINDING: 47 C.F.R. § 54.514(2019); First 2014 E-Rate Order, FCC 14-99, paras. 233-235 (2014) – Failure to Reimburse E-Rate Funds from Service Provider

CONDITION

AAD obtained and examined the FCC Form 474 Service Provider Invoice (SPI) forms and the corresponding Service Provider (AT&T, operating through CALNET²) bills to determine whether the Service Provider billed the Beneficiary the non-discounted portion of the costs of eligible equipment and services plus the cost of any ineligible items for FRN 2099059026. AAD reviewed the Service Provider's bills and identified that the Service Provider invoiced the Beneficiary for the discounted portion of the costs of eligible equipment and services in violation of the SPI invoicing method (see Other Matter #1) and then also failed to reimburse the Beneficiary for the costs it should not have collected in the first place, as detailed below.

FRN	SP Name	SP Invoice Number	SP Invoice Period	Discounted Amount Billed to E-Rate	Approved Discounted Amount Disbursed by E-Rate (A)	Credits Provided by Service Provider (B)	Amounts owed to Beneficiary (C)=(A)-(B)
2099059026	CALNET (AT&T)	3344336	Jul-Dec 2020	\$68,979	\$68,979	\$0	\$68,979
				Total	\$68,979	\$0	\$68,979

AAD determined that the Service Provider did not reimburse or provide credits to the Beneficiary in the amount of \$68,979 disbursed by the E-Rate program for the period of July to December 2020 (billed under CALNET). The Service Provider informed AAD that it attempted to credit the Beneficiary for the discounted amount. However, the Service Provider did not discover that the transaction failed to post until after it invoiced the E-Rate program.³ Therefore, AAD concludes that the Service Provider did not reimburse or issue credit to the Beneficiary in full for the amounts disbursed by the E-Rate program.

CAUSE

The Service Provider did not have adequate controls and procedures in place to ensure that the funds were reimbursed to the Beneficiary in full for the amount disbursed by the E-Rate program in the next billing cycle.

EFFECT

The monetary effect of this finding is \$68,979. This amount represents the total amount disbursed by the E-Rate program for the Beneficiary's discounted portion of the services delivered under CALNET for the period of July to December 2020.

² AT&T holds the State Master Contract for California schools. AT&T was transitioning their local provider from CALNET to Pacific Bell during the service period.

³ Service Provider email response to the audit inquiries, received April 6, 2023.

RECOMMENDATION

AAD recommends that USAC Management seek recovery of \$68,979.

The Beneficiary must implement controls and procedures to ensure it is only billed for the non-discounted portion of the costs of eligible equipment and services plus the cost of any ineligible items by the Service Providers, or that reimbursement is made to the Beneficiary on the next billing cycle for the discounted portion of services.

The Service Provider must implement controls and procedures to ensure it only bills its beneficiaries for the non-discounted portion of the costs of eligible equipment and services plus the cost of any ineligible items and if that is not the case, the Beneficiary must be reimbursed in full for the amount disbursed by the E-Rate program in the next billing cycle. See invoicing instructions at <https://www.usac.org/e-rate/applicant-process/invoicing/>.

SERVICE PROVIDER RESPONSE

On 4/6/2023 AT&T advised USAC that due to an inadvertent manual error, AT&T did not apply the \$68,979 disbursement to the customer's Calnet billing account prior to invoicing USAC. AT&T advised USAC that AT&T would return funds invoiced. However, [USAC staff] advised AT&T to pause on returning funds.

AT&T will reimburse the appropriate entity upon direction from USAC. AT&T is awaiting direction regarding whom to send money to in accordance with the rules.

AT&T has since implemented controls to identify instances where discounts fail postings prior to submitting Form 474 to USAC and to correct the same.

BENEFICIARY RESPONSE

We have thoroughly reviewed the audit findings related to FRN 2099059026 and appreciate AAD's diligence in examining the FCC Form 474 Service Provider Invoice (SPI) forms and corresponding bills from Pacific Bell Telephone Company.

It has been brought to our attention that the Service Provider did not timely reimburse the full discounted amount of \$68,979 disbursed by the E-Rate program for the period of July to November 2020, as billed under CALNET. We recognize AAD's commitment to ensuring accuracy in reimbursement processes.

In response to this finding, we are actively evaluating the current disbursement reconciliation process, specifically related to SPIs. We intend to engage with the Service Provider to expedite the resolution of this matter. Steps are being taken to rectify the situation promptly and prevent similar occurrences in the future, aligning with our commitment to upholding the standards of the E-Rate program.

AAD RESPONSE TO THE SERVICE PROVIDER

AAD recommends that the Service Provider reimburse the Beneficiary the amount of \$68,979. If the Service Provider fails to do so, then AAD recommends that USAC Management seek recovery of \$68,979.

Other Matter #1: First 2014 E-Rate Order, FCC 14-99, paras. 233-235 (2014) – Service Provider Billed the Beneficiary for the Discount Share of Services

CONDITION

AAD obtained and examined the Service Provider bills to determine whether the Service Provider only billed the Beneficiary for the non-discount portion of the bills, plus any ineligible services. The Service Provider, AT&T (operating through CALNET and Pacific Bell as local providers), billed the Beneficiary throughout Funding Year 2020 for services reimbursed by USAC under the Service Provider Invoice (SPI) method.⁴ Specifically, the Beneficiary elected to be reimbursed for E-Rate support for FRN 2099059026 by SPI method at an 80 percent discount rate.

Under the SPI method, Service Providers bill the Beneficiary for the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the discounted share of eligible services. The Beneficiary is only responsible for paying Service Providers for its non-discounted share, plus the cost of any ineligible services.⁵ However, the Service Provider billed the Beneficiary for the entire monthly cost of services provided during the audited funding year July 2020 – June 2021 for FRN 2099059026, rather than only its non-discount share (plus the cost of ineligible services). AAD noted that for the July 2020 –December 2020 bills (under CALNET), the Service Provider failed to provide applied the E-Rate credits,⁶ to the Beneficiary's November 2020 bill and for the October 2020⁷ – June 2021 bills (under Pacific Bell), the Service Provider applied E-Rate credits to the Beneficiary's subsequent monthly billing period.

CAUSE

The Service Provider did not demonstrate sufficient knowledge of the FCC Rules governing the SPI method process and did not have adequate controls and procedures to ensure that the Beneficiary was billed only for the discounted costs approved by USAC.⁸

EFFECT

As a result of the above-described improper use of the SPI method, the Service Provider may initially collect more than the discount amount and risk ultimately charging the Beneficiary more than the non-discounted amount for the services. While this does not guarantee over-collection by the Service Provider, it does increase the Service Provider's risk of violating FCC Rules regarding the discounted amount when invoicing

⁴ *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, FCC 14-99, para. 235 (2014) (*First 2014 E-Rate Order*). See also *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997), and *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, para. 47 (2003).

⁵ See *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997), and *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, para. 47 (2003).

⁶ AAD identified this as Finding #1.

⁷ AT&T holds the State Master Contract for California schools. AT&T was transitioning their local provider from CALNET to Pacific Bell during the service period and had an overlap from Oct – December 2020, where some locations were on CALNET, while others were transitioned to Pacific Bell. AAD confirmed there were no duplicate billing / invoicing for locations.

⁸ FRN 2099059026, Audit Inquiries Record (AIR) sent August 25, 2023.

under the SPI method. There is no monetary effect since the Service Provider ultimately applied E-Rate credits to the Beneficiary's bills. However, AAD notes that the Beneficiary was entitled to E-Rate discounts, and the Beneficiary may experience cash flow issues if the Service Provider bills for the entire pre-discount amount under the SPI method or fails to credit its bills in a timely manner.

RECOMMENDATION

The Service Provider must implement policies, controls, and procedures to obtain and process FRN funding details to ensure the Beneficiary is billed only for the non-discount share, plus the cost of ineligible services. The Service Provider can familiarize itself with the FCC Rules related to invoicing at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>. The Service Provider can also learn more about the E-Rate program's training opportunities on USAC's website at <https://www.usac.org/e-rate/learn/> and keep current on E-Rate news at <https://www.usac.org/e-rate/resources/news-brief/>.

SERVICE PROVIDER RESPONSE

AT&T's SPI method process is compliant with current FCC rules.

AT&T applies E-Rate credits to customers' bills after AT&T receives all information necessary to verify the services and accounts that are subject to the e-rate discount.

AT&T requests customers to provide relevant information early in the process and, in its Welcome Package, AT&T provides customers with a "Grid" identifying relevant information needed by AT&T to apply E-rate credits. AT&T applies E-rate credits to customers' bills after receiving the completed Grid. In this case, the customer did not provide AT&T with the completed Grid until 1/24/2022 (1 month before the extended last date to invoice). The late Grid receipt required AT&T to manually process disbursements to ensure posting to the bill prior to last date to invoice of 2/25/2022.

NOTE: The FCC is considering this issue of SPI invoicing in a current rulemaking proceeding. AT&T is an active participant in the proceeding and has filed both comments and reply comments explaining its SPI processes. Please refer to AT&T comments.⁹

BENEFICIARY RESPONSE

We appreciate AAD's diligent efforts in conducting the audit for Funding Year 2020 and the subsequent findings related to our E-Rate program participation, specifically concerning FRN 2099059026.

Upon review of the Other Matter, we acknowledge and share your concerns regarding the billing discrepancies observed during the first five months of the funding year. It has come to our attention that Pacific Bell, our Service Provider, billed us for services reimbursed by USAC under the Service Provider Invoicing (SPI) method. We elected to be reimbursed at an 80% discount rate for FRN 2099059026 by SPI method.

⁹ See, AT&T Comments and Reply Comments, Schools and Libraries Universal Service Support Mechanism; Federal -State Joint Board on Universal Service; Changes to the Board of Directors of the National Exchange Carrier Association, Inc., *Report and Order and Further Notice of Proposed Rulemaking*, CC Docket No. 02-6; CC Docket No. 96-45, CC Docket No. 97-21, released July 21, 2023.



We would like to emphasize that we lack the ability to influence the Service Provider's actions directly, and we concur with AAD's recommendation in this matter. We understand the importance of the Service Provider implementing robust policies, controls, and procedures to ensure the accurate processing of FRN funding details, timely application of discounts, and the billing of only the non-discount share along with the cost of ineligible services.

Rest assured, we will actively work internally and with the Service Provider to address and rectify these billing discrepancies promptly. Our commitment to the E-Rate program's integrity and compliance remains unwavering, and we are taking additional measures to monitor similar issues in the future.

AAD RESPONSE

Per FCC Rules,⁴ service providers may only bill beneficiaries who elect the SPI invoicing method for the non-discounted share of the costs of eligible equipment and services (plus the cost of any ineligible equipment and services). Service providers are required to invoice USAC for the discounted share of the costs of eligible equipment and services. During the audited funding year, Funding Year 2020 (July 2020 – June 2021), the Service Provider billed the Beneficiary the full monthly amount for the cost of eligible equipment and services (plus the cost of any ineligible equipment and services) rather than only the non-discounted portion, which is not compliant with FCC Rules regarding the SPI invoicing method.

Other Matter #2: Modernization Order, FCC 14-99, para. 235 (2014) – Service Provider Billed the Beneficiary for the Discount Share of Services

CONDITION

AAD obtained and examined the Service Provider bills to determine whether the Service Provider only billed the Beneficiary for the non-discount portion of the bills, plus any ineligible services. The Service Provider, Comcast, billed the Beneficiary during the first five months of Funding Year 2020 for services reimbursed by USAC under the Service Provider Invoicing (SPI) method.⁴ Specifically, the Beneficiary elected to be reimbursed for E-Rate support for FRN 2099059045 by SPI method at an 80% discount rate.

Under the SPI method, Service Providers bill the Beneficiary for the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the discounted share of eligible services. The Beneficiary is only responsible for paying Service Providers for its non-discounted share, plus the cost of any ineligible services.⁵ However, the Service Provider billed the Beneficiary for the entire monthly cost of services provided during July 2020 – November 2020 of the audited funding year for FRN 2099059045, rather than only its non-discount share (plus the cost of ineligible services). AAD noted that for the July 2020 – November 2020 bills the Service Provider applied the E-Rate credits to the Beneficiary's December 2020 bill. Beginning December 2020, the bills properly excluded the discount share billed to USAC.

CAUSE

The Service Provider did not have adequate controls and procedures in place during the period July 2020 – November 2020 to ensure that the Beneficiary was billed only for the discounted costs approved by USAC. The Service Provider noted that the invoices reflected the non-discounted share of the costs once it was eligible to file an SPI form to invoice USAC for the discounted share.¹⁰

EFFECT

As a result of the above-described improper use of the SPI method, the Service Provider may initially collect more than the discount amount and risk ultimately charging the Beneficiary more than the non-discounted amount for the services. While this does not guarantee over-collection by the Service Provider, it does increase the Service Provider's risk of violating FCC Rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Provider ultimately applied E-Rate credits to the Beneficiary's bills. However, AAD notes that the Beneficiary was entitled to E-Rate discounts during July 2020 – November 2020, and the Beneficiary may experience cash flow issues if the Service Provider bills for the entire pre-discount amount under the SPI method or fails to credit its bills in a timely manner.

RECOMMENDATION

The Service Provider must implement policies, controls, and procedures to obtain and process FRN funding details to ensure the Beneficiary is billed only for the non-discount share, plus the cost of ineligible services. The Service Provider can familiarize itself with the FCC Rules related to invoicing at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>. The Service Provider can also learn more about the E-Rate program's training opportunities on USAC's website at <https://www.usac.org/e-rate/learn/> and keep current on E-Rate news at <https://www.usac.org/e-rate/resources/news-brief/>.

SERVICE PROVIDER RESPONSE

The invoice reflected the non-discounted share of the costs once Comcast began to file SPI forms to invoice USAC the discounted share. The discounts were reflected in the invoices starting in December 2020, and the first SPI form was also submitted on December 2020.

Comcast has policies and procedures in place to ensure that the beneficiary is billed the non-discounted portion of the costs. The invoice reflects the non-discounted share of the costs once Comcast is eligible to file a SPI form to invoice USAC for the discounted share.

BENEFICIARY RESPONSE

We appreciate AAD's diligent efforts in conducting the audit for Funding Year 2020 and the subsequent findings related to our E-Rate program participation, specifically concerning FRN 2099059045.

Upon review of the Other Matter, we acknowledge and share your concerns regarding the billing discrepancies observed during the first five months of the funding year. It has come to our attention that Comcast, our Service Provider, billed us for services reimbursed by USAC under the Service Provider Invoicing (SPI) method. We elected to be reimbursed at an 80% discount rate for FRN 2099059045 by SPI method.

¹⁰ Beneficiary response to audit inquiry, sent July 6, 2023.



We would like to emphasize that we lack the ability to influence the Service Provider's actions directly, and we concur with AAD's recommendation in this matter. We understand the importance of the Service Provider implementing robust policies, controls, and procedures to ensure the accurate processing of FRN funding details, timely application of discounts, and the billing of only the non-discount share along with the cost of ineligible services.

Rest assured, we will actively work internally and with the Service Provider to address and rectify these billing discrepancies promptly. Our commitment to the E-Rate program's integrity and compliance remains unwavering, and we are taking additional measures to monitor similar issues in the future.

CRITERIA

Finding Criteria	Description
47 C.F.R. § 54.514 (c)	Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full, undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.
<i>Modernizing the E-Rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Order, FCC 14-99, Appendix A (2014) (<i>First 2014 E-Rate Order</i>).	The service provider listed on the FCC Form 473 certifies 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.

Other Matter Criteria	Description
<i>Modernizing the E-Rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Order, FCC 14-99, Appendix A (2014) (<i>First 2014 E-Rate Order</i>).	The service provider listed on the FCC Form 473 certifies 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.
<i>Modernizing the E-Rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Order, FCC 14-99, para. 235 (2014) (<i>First 2014 E-Rate Order</i>).	We take this opportunity to reiterate that E-Rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.
<i>Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 234, n.567 (2014) (<i>First 2014 E-Rate Order</i>)	Applicants also have the option of using the Service Provider Invoicing (SPI) process. Under the SPI process the applicant pays only the reduced cost of the services directly to the service provider, and then the service provider must file an FCC Form 47[4] (SPI Form) with USAC to receive its reimbursement.
<i>Federal-State Joint Board On Universal Service</i> , CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997)	We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.
<i>Schools and Libraries Universal Service Support Mechanism</i> , CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC	We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers

Other Matter Criteria	Description
03-101 at paras. 44, 46-47 (2003)	providing discounted service be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, <i>i.e.</i> , between receiving either a reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place. In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the <i>Universal Service Order</i> that 'requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.' . . . In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.
47 C.F.R. § 54.514(c) (2019)	<i>Choice of payment method.</i> Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full, undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.
47 C.F.R. § 54.504(f)(5) (2019)	The service provider listed on the FCC Form 473 certifies 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.
Service Provider Invoice (SPI) Form, FCC Form 474, Block 3 (2022)	Item A - I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.

This concludes the report.

INFO Item: Audit Released June2025

Attachment N

7/28/2025

Attachment N

SL2023LR021

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

IRVINE UNIFIED SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES

USAC AUDIT No. SL2023LR021



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

Executive Summary

March 7, 2024

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:

Sikich CPA LLC¹ (referred to as “Sikich” or “we”) audited the compliance of Irvine Unified School District (Beneficiary), Billed Entity Number (BEN) 143762, using regulations governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as orders and other program requirements (collectively, Federal Communications Commission [FCC] Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with FCC Rules based on our audit.

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

¹ Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

Based on the test work performed, our audit disclosed one detailed audit finding and one other matter, 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. An “other matter” is a condition that does not necessarily constitute a violation of FCC Rules but that warrants the attention of the Service Provider and USAC management.

Certain information may have been omitted from this report concerning communications with USAC management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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 audit found that one of the Beneficiary’s Service Providers did not comply with FCC Rules, as set forth in the one detailed audit finding and one other matter discussed below.

Audit Results	Monetary Effect	Recommended Recovery
Finding No. 1, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 (2020); FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 (2020) – Service Provider Invoiced the E-Rate Program for Ineligible Services. One of the Beneficiary’s Service Providers incorrectly calculated the cost of eligible services provided to the Beneficiary when preparing the SPI Forms submitted to USAC.	\$1,690	\$0
Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235 – Service Provider Billed the Beneficiary for the Discount Share of Services. One of the Beneficiary’s Service Providers billed the Beneficiary for the discounted share of service costs.	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$1,690</u>	<u>\$0</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. USAC may review other invoices filed by the Beneficiary and Service Provider during the audited Funding Year that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary 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 Invoicing Process: Office Hour Webinar, July 21, 2022)
- <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 and Service Providers are currently subscribed to the E-Rate weekly News Brief. USAC encourages 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) 2021. The Beneficiary is a school district located in Orange County, California, that serves more than 36,000 students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2021 as of November 9, 2023, the date that we completed our initial fieldwork testing.²

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$3,105,206	\$967,031
Data Transmission and/or Internet Access	<u>\$226,657</u>	<u>\$159,039</u>
Total	<u>\$3,331,863</u>	<u>\$1,126,070</u>

The “amount committed” total represents two FCC Form 471, *Description of Services Ordered and Certification Form*, applications submitted by the Beneficiary for FY 2021 that resulted in two Funding Request Numbers (FRNs). We selected both FRNs,³ which represent \$3,331,863 of the funds committed and \$1,126,070 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

² On November 9, 2023, we expanded the audit scope to include \$658,596 disbursed for FRN 2199041958 after our audit announcement date of March 1, 2023.

³ We tested FRNs 2199008788 and 2199041958.

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 conducted 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 Bidding Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) considered the price of the eligible equipment and services as the primary factor in selecting its Service Providers. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470, *Description of Services Requested and Certification Form*, was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected Service Providers. Additionally, we examined the Service Provider contracts to determine whether they were properly executed.

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 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 to the Service Providers.

D. Virtual Site Visits

We performed virtual site visits to evaluate the location and use of equipment and services for which the Beneficiary had requested funding 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 invoices that the Service Providers submitted to USAC for reimbursement and performed procedures to determine whether the Service Providers had properly invoiced USAC. Specifically, we reviewed invoices associated with the SPI Forms for the equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the SPI Forms and corresponding Service Provider

bills were consistent with the terms and specifications of the Service Provider agreements and were eligible in accordance with the E-Rate program Eligible Services List.

Detailed Audit Findings

Finding No. 1, FCC Form 473, SPAC Form at Block 2 (2020); FCC Form 474, SPI Form at Block 3 (2020) – Service Provider Invoiced the E-Rate Program for Ineligible Services⁴

Condition

One of the Beneficiary’s Service Providers, AT&T Corporation (AT&T), incorrectly calculated eligible service costs when preparing the SPI Forms for FRN 2199008788. Specifically, the Service Provider inadvertently included \$3,380 it invoiced for ineligible “Refund of Credit” services when calculating the undiscounted portion of the SPI Form it submitted to request reimbursement for services provided to the Beneficiary in August 2021.

Cause

The Service Provider did not have adequate controls in place to ensure they only invoiced the E-Rate program for eligible services.

Effect

The monetary effect of this finding is \$1,690 (\$3,380 multiplied by the Beneficiary’s 50 percent discount rate). We do not recommend recovery, as the Service Provider provided documentation to demonstrate that it refunded the E-Rate program in response to this finding.

Support Type	Monetary Effect	Recommended Recovery
Internet Access FRN 2199008788	<u>\$1,690</u>	<u>\$0</u>
Total	<u>\$1,690</u>	<u>\$0</u>

Recommendation

We recommend that the Service Provider implement policies, controls and procedures to ensure that SPI Forms are accurate before invoicing the E-Rate program.

Service Provider Response

On 11/08/2023, AT&T debited Irvine USD \$1689.82 for discounts issued against an ineligible item, specifically a Refund of Credit charge. The debit posted to the 11/25/2023 bills & AT&T has returned funds of \$1,689.82, which were accepted by USAC on 12/03/2023.

In February 2024, AT&T implemented a long-term system solution designed to flag Refund of Credit transactions as ineligible for funding. This long-term system solution should obviate the need for manual processing and mitigate errors.

⁴See also 47 C.F.R. § 54.502(a) (2020); 47 C.F.R. § 54.504(f)(4), (5) (2020); and Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Order, DA 20-1418, (2020).

Auditor Response

As the Service Provider has refunded USAC for the ineligible “Refund of Credit” charges, we have changed our recommended recovery amount to reflect \$0. However, our position regarding the finding has not changed as the ineligible expenses were identified during the audit.

Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235⁵ – Service Provider Billed the Beneficiary for the Discount Share of Services

Condition

One of the Beneficiary’s Service Providers, AT&T, billed the Beneficiary for the discounted share of service costs on the bills tested for which the Beneficiary chose the SPI invoicing method. Under the SPI method, service providers bill the beneficiary for the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the discounted share of eligible services. The beneficiary is only responsible for paying service providers its non-discounted share, plus the cost of any ineligible services. However, throughout FY 2021, the Service Provider billed the Beneficiary for the full pre-discount cost of FRN 2199008788 before seeking reimbursement from USAC for the discount amounts, rather than only the Beneficiary’s 50 percent non-discounted share (plus the cost of ineligible services). The Service Provider applied the E-Rate credits to the Beneficiary’s bills after FY 2021 had ended.

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure it obtained and processed the information necessary to calculate discounts on a timely basis. Specifically, the Service Provider requires that beneficiaries complete a Grid document with the details of the E-Rate funding for each FRN before it applies discounts on the applicable bills. However, the Service Provider did not have procedures to obtain the Grid document from the Beneficiary as soon as it received USAC’s FCC Form 486 Notification Letter, confirming that services approved for discounts had started.

Effect

As a result of the above-described use of the SPI method, the Service Provider initially collected more than the discount amount and risked ultimately charging the Beneficiary for more than the non-discounted amount for the services. While this practice may not always result in over-collection by the Service Provider, such as, for example, when the Service Provider credits the Beneficiary in a timely manner, it does increase the Service Provider’s risk of violating FCC Rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Provider ultimately applied E-Rate credits to the Beneficiary’s bills. However, we note that the Beneficiary was entitled to a 50 percent discount rate and may experience cash flow issues if the Service Provider continues to bill for the entire pre-discounted amount under the SPI method or fails to credit its bills in a timely manner.

⁵ See also *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997); *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 47 and 49 (2003).

Recommendation

We recommend that the Service Provider implement policies, controls and procedures to obtain and process FRN funding details so it can apply discounts to its bills on a timely basis and ensure the Beneficiary is billed only for the non-discounted share, plus the cost of ineligible services.

Service Provider Response

AT&T's SPI method process is compliant with current FCC rules.

AT&T applies E-Rate credits to customers' bills after AT&T receives all information necessary to verify the services and accounts that are subject to the E-Rate discount.

AT&T requests customers to provide relevant information early in the process and, in its Welcome Package, AT&T provides customers with a "Grid" identifying relevant information needed by AT&T to apply E-rate credits. AT&T applies E-rate credits to customers' bills after receiving the completed Grid.

In this case, the customer did not provide AT&T with the completed Grid until 11/29/2021 (5 months after the start of the funding year). The late Grid receipt required AT&T to systematically process disbursements for 7/2021 – 1/2022 & ensure posting to the bill prior to invoicing USAC.

NOTE: The FCC is considering this issue of SPI invoicing in a current rulemaking proceeding. AT&T is an active participant in the proceeding and has filed both comments and reply comments explaining its SPI processes. Please refer to AT&T comments.^[1]

^[1] See, AT&T Comments and Reply Comments, Schools and Libraries Universal Service Support Mechanism; Federal -State Joint Board on Universal Service; Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 02-6; CC Docket No. 96-45, CC Docket No. 97-21, released July 21, 2023.

Auditor Response

Although the Service Provider states that E-Rate credits were delayed due to late submission of the required information by the Beneficiary, we continue to believe that there is an increased risk that beneficiaries could overpay their share when discounts are not applied on a monthly basis. Further, we noted it is more difficult to detect missing or inaccurate discounts when they are not recorded in the same month that services are billed. Regardless, under the SPI method, the Service Provider should not charge the Beneficiary for the discounted share of the costs of eligible equipment and services. Rather, it should only charge the Beneficiary the non-discounted share of the costs of eligible equipment and services (plus the cost of any ineligible equipment and services) and should seek reimbursement of the discounted portion of the costs of the eligible equipment and services directly from USAC. Therefore, our position regarding the other matter has not changed.

Criteria

Finding	Criteria	Description
1	Universal Service for Schools and Libraries, Service Provider Annual Certification Form, OMB 3060-0856 (2020) (FCC Form 473). 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 services which have been billed to the Service Provider's customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal service support by the fund administrator.</p> <p>10. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider are based on bills or invoices issued by the service provider to the Service Provider's customers on behalf of schools, libraries, and consortia of those entities as deemed eligible for universal service support by the fund administrator, and exclude any charges previously invoiced to the fund administrator for which the fund administrator has not issued a reimbursement decision.</p> <p>11. I certify that any requests for reimbursement that are sought under a Service Provider Invoice Form (FCC Form 474) for discounts for products or services that contain both eligible and ineligible components are properly allocated as required by the Commission's rules at 47 C.F. R § 54.504 (1) and (2).</p>
1	Schools and Libraries Universal Service, Service Provider Invoice FCC Form 474, OMB 3060-0856 (2020) (FCC Form 474 Block 3).	<p>The authorized person must certify under penalty of perjury, to the best of his/her knowledge, information and belief, that:</p> <p>A. I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.</p>
1	47 C.F.R. § 54.502(a) (2020).	<p>All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such services</p>

Finding	Criteria	Description
		<i>shall not be covered by the universal service support mechanisms.</i>
1	47 C.F.R. § 54.504(f)(4), (5) (2020).	<p><i>The FCC Form 473 shall be signed by an authorized person and shall include that person's certification under oath that: The service provider listed on the FCC Form 473 certifies that the invoices that are submitted by this Service Provider to the Billed Entity for reimbursement pursuant to Billed Entity Applicant Reimbursement Forms (FCC Form 472) are accurate and represent payments from the Billed Entity to the Service Provider for equipment and services provided pursuant to E-rate program rules.</i></p> <p><i>The FCC Form 473 shall be signed by an authorized person and shall include that person's certification under oath that: The service provider listed on the FCC Form 473 certifies 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.</i></p>
1	<i>Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Order, DA 20-1418, (2020).</i>	<i>In this Order, the Wireline Competition Bureau (Bureau) adopts the final eligible services list for funding year 2021 for the schools and libraries universal service support program (more commonly referred to as the E-Rate program).</i>

Other Matter	Criteria	Description
1	<i>Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, paras. 235.	<i>We take this opportunity to reiterate that E-rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement. . . .</i>
1	<i>Federal-State Joint Board on Universal Service</i> , CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997).	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism</i> , CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 47 and 49 (2003).	<p><i>[W]e find that providing applicants with the right to choose which payment method to use will help to ensure that all schools and libraries have affordable access to telecommunications and Internet access services. . . . In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i></p> <p><i>Once an applicant has made and memorialized its choice for a funding year, the applicant may not unilaterally shift from one form of payment to the other within that funding year.</i></p>
1	<i>Schools and Libraries Universal Service</i> , Service Provider Invoice FCC Form 474, OMB 3060-0856 (2020) (FCC	<p><i>The authorized person must certify under penalty of perjury, to the best of his/her knowledge, information and belief, that:</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</i></p>

Other Matter	Criteria	Description
	Form 474, Block 3).	<i>those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.</i>
1	47 C.F.R. § 54.514(c) (2020)	<i>Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.</i>

Sikich CPA LLC

**INFO Item: Audit Released June2025
Attachment O
7/28/2025**

Attachment O

SL2024LR005

The O'Farrell Charter School

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

USAC Audit No. SL2024LR005



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EXECUTIVE SUMMARY

November 8, 2024

Cindy Wagner, Superintendent
The O'Farrell Charter School
6130 Skyline Drive
San Diego, CA 92114

Dear Ms. Wagner:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of The O'Farrell Charter School (Beneficiary), Billed Entity Number (BEN) 104247, using regulations set forth in 47 C.F.R. Part 54 and orders and other program requirements governing the federal Universal Service E-Rate program (collectively, the Federal Communications Commission (FCC) Rules). Compliance with the FCC Rules is the responsibility of the Beneficiary. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the FCC Rules based on our limited review performance audit.

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

Based on the test work performed, our examination disclosed one other matter (Other Matter) discussed in the Audit Result and Commitment Adjustment/Recovery Action section. For the purpose of this report, an "other matter" is a condition that does not necessarily constitute a rule violation but warrants the Beneficiary, corresponding Service Provider, and USAC Management's attention.

Certain information may have been omitted from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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 you and your staff extended during the audit.

Sincerely,



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

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

AUDIT RESULT AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Other Matter: 47 C.F.R. § 54.514; 47 C.F.R. § 54.504(f)(5); 47 C.F.R. § 54.523; First 2014 E-Rate Order, FCC 14-99 para. 235 (2014) - Service Provider Billed the Beneficiary for the Discount Share of Services. The Service Provider billed the Beneficiary the full pre-discounted cost instead of billing only the discounted cost. While this did not result in over-collection by the Service Provider, it does increase the Service Provider's risk of violating FCC rules regarding the discounted amount when billing under the SPI method.	\$0	\$0	\$0
Total Net Monetary Effect	\$0	\$0	\$0

USAC MANAGEMENT RESPONSE

USAC Management concurs with the Audit Result stated above. USAC may review other FCC forms and documents filed by the Beneficiary and Service Provider during the audited Funding Year that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified. USAC also refers the Beneficiary and Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>

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, SCOPE, BACKGROUND, AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for Funding Year 2022 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$172,113	\$172,113
Internet Access	\$30,888	\$1,544
Total	\$203,001	\$173,657

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

The committed total represents two FCC Form 471 applications with two Funding Request Numbers (FRNs). AAD selected all FRNs,¹ which represent \$203,001 of the funds committed and \$173,657 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2022 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a school located in San Diego, California, that serves over 1,900 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the E-Rate program. Specifically, AAD examined documentation to determine if it supported the effective use of funding and demonstrated that adequate controls existed to determine whether funds were used in accordance with the FCC Rules. AAD conducted inquiries and performed direct observation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which funding was requested. AAD also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

AAD obtained and examined documentation to determine whether the Beneficiary complied with the E-Rate program Children's Internet Protection Act (CIPA) requirements. Specifically, AAD obtained and

¹ The FRNs included in the scope of this audit were: 2299056226 and 2299054920.

evaluated the Beneficiary's Internet Safety Policy. AAD obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

B. Competitive Bidding Process

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and the price of the eligible equipment and services was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected Service Providers.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED OTHER MATTER

Other Matter: 47 C.F.R. § 54.514; 47 C.F.R. § 54.504(f)(5); 47 C.F.R. § 54.523; *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, 29 FCC Rcd 8870, FCC 14-99, 8964, para. 235 (2014) (First 2014 E-Rate Order); *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9084, para. 586 (1997) - Service Provider Billed the Beneficiary for the Discount Share of Services

CONDITION

AAD obtained and examined the Service Provider bills to determine whether the Service Provider only billed the Beneficiary for the non-discount portion of the bills, plus any ineligible services. The Service Provider (Cox Business) billed the Beneficiary on the June 2023 invoice for services reimbursed by USAC under the Service Provider Invoicing (SPI) method.² Specifically, the Beneficiary elected to be reimbursed for E-Rate support for FRN 2299056226 by the SPI method at a 60% discount rate.

Under the SPI method, Service Providers bill the Beneficiary for the non-discounted share of eligible services (and any ineligible services) and invoice USAC for the discounted share of eligible services. The Beneficiary is only responsible for paying Service Providers for its non-discounted share, plus the cost of any ineligible services.³ However, the Service Provider billed the Beneficiary the full pre-discounted cost instead of billing only the discounted cost, found on Service Provider Bill Number 2006212023, for partial month services of 5 Gbps internet, Managed Customer Premise Equipment Internal Package - Individual Case Basis, and Internet Protocol Address Block, resulting in an overcharge of \$1,544 on the June 20, 2023 bill. This Service Provider bill is in relation to invoice number SPI202408294. The Service Provider's billing of pre-discounted costs did not result in over-collection by the Service Provider because the Service Provider credited the Beneficiary for the pre-discounted costs on the December 1, 2023 bill. However, the Service Provider's actions to bill the Beneficiary the full pre-discounted costs increase the Service Provider's risk of violating FCC rules regarding the discounted amount when billing under the SPI method.

CAUSE

The Service Provider did not demonstrate sufficient knowledge of the FCC Rules governing the SPI method process and did not have adequate controls and procedures to ensure that the Beneficiary was billed only for the discounted costs approved by USAC.

EFFECT

² See *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, 29 FCC Rcd 8870, 8964, para. 235 (2014) (First 2014 E-Rate Order). See also *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9084, para. 586 (1997), and *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202, 9219, para. 47 (2003).

³ 47 C.F.R. § 54.523; See also *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9084, para. 586 (1997), and *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, 18 FCC Rcd 9202, 9219, para. 47 (2003).

As a result of the above-described improper use of the SPI method, the Service Provider may initially collect more than the discount amount and risk ultimately charging the Beneficiary more than the non-discounted amount for the services. While this does not guarantee over-collection by the Service Provider, it does increase the Service Provider's risk of violating FCC Rules regarding the discounted amount when invoicing under the SPI method. There is no monetary effect since the Service Provider ultimately applied E-Rate credits to the Beneficiary's bills. However, AAD notes that the Beneficiary was entitled to E-Rate discounts, and the Beneficiary may experience cash flow issues if the Service Provider bills for the entire pre-discount amount under the SPI method or fails to credit its bills in a timely manner.

RECOMMENDATION

The Service Provider must have proper controls in place to ensure that the Beneficiary is billed accurately according to discounted cost obligations. The Service Provider can familiarize itself with the FCC Rules related to invoicing at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>. The Service Provider can also learn more about the E-Rate program's training opportunities on USAC's website at <https://www.usac.org/e-rate/learn/> and keep current on E-Rate news at <https://www.usac.org/e-rate/resources/news-brief/>.

BENEFICIARY/ RESPONSE

The Beneficiary acknowledges the condition specified in the Other Matter.

SERVICE PROVIDER RESPONSE

As noted and consistent with the practice of other service providers in the industry, Cox Business (Service Provider) bills customers who select the SPI method the full non-discounted price for E-Rate services and then applies credits to the Beneficiary when USAC approves the funding. Cox accepts partial payments from these customers prior to USAC's funding approval and our subsequent issuing of credits. Cox has significant processes and controls in place to ensure accurate application of E-Rate credits to Beneficiaries, and customers have not objected to this billing method. The FCC is aware of this widespread decades-long practice and has not taken action to change its rules to eliminate this flexibility in SPI invoicing. (FCC 23-56, at 75). If the FCC were to require changes to its existing rules to eliminate this industry-wide practice, Cox would incur significant and costly changes to its billing systems to comply with the new constraints.

AAD RESPONSE

AAD acknowledges that the Service Provider credited the Beneficiary for the pre-discounted costs on the December 1, 2023 bill. However, the Service Provider's actions to bill the Beneficiary the full pre-discounted amount of the costs of eligible equipment and services (plus the costs of any ineligible equipment and services) is inconsistent with the FCC Rules regarding the SPI invoicing method. The Service Provider must ensure proper controls are in place to bill the Beneficiary only the non-discounted portion of the costs of eligible equipment and services (plus the costs of any ineligible equipment and services) consistent with the FCC Rules for the SPI invoicing method.

CRITERIA

47 C.F.R. 54.514(c) (2021).

"Choice of payment method. Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the

Administrator, including by making a full, undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.”

47 C.F.R. § 54.504(f)(5) (2021).

“The service provider listed on the FCC Form 473 certifies 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.”

47 C.F.R. § 54.523 (2021).

“An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts.”

Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, 8964, para. 235 (2014) (*First 2014 E-Rate Order*).

“We take this opportunity to reiterate that E-Rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.”

Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870, 8964, para. 234, 567 (2014) (*First 2014 E-Rate Order*).

“Applicants also have the option of using the Service Provider Invoicing (SPI) process. Under the SPI process the applicant pays only the reduced cost of the services directly to the service provider, and then the service provider must file an FCC Form 47[4] (SPI Form) with USAC to receive reimbursement.”

Federal-State Joint Board On Universal Service, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9084, para. 586 (1997).

“We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.”

Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Second Report and Order and FNPRM, 18 FCC Rcd 9202, 9219, para. 47 (2003).

“We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted service be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, *i.e.*, between receiving either a reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place. In addition, we find that providing applicants with the right to choose which payment method to use will help ensure that all schools and libraries have affordable access to telecommunications and Internet



access services. The Commission previously noted in the *Universal Service Order* that ‘requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.’ . . . In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.”

This concludes the report.

**INFO Item: Audit Released June2025
Attachment P
7/28/2025**

Attachment P

SL2024LR020

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
PERFORMANCE AUDIT

NEWMAN INTERNATIONAL ACADEMY
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES
USAC AUDIT No. SL2024LR020



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
NEWMAN INTERNATIONAL ACADEMY
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

December 10, 2024

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:

Sikich CPA LLC¹ (referred to as “Sikich” or “we”) audited the compliance of Newman International Academy (Beneficiary), Billed Entity Number (BEN) 17001300, using regulations governing the federal Universal Service E-Rate program, set forth in 47 C.F.R. Part 54, as well as orders and other program requirements (collectively, Federal Communications Commission [FCC] Rules). Compliance with the FCC Rules is the responsibility of Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with the FCC Rules based on our audit.

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

¹ Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

Based on the test work performed, our audit disclosed one detailed audit finding and one other matter, 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. An “other matter” is a condition that does not necessarily constitute an FCC Rule violation but that warrants the attention of the Service Provider and USAC Management.

Certain information may have been omitted from this report concerning communications with USAC Management or other officials and/or details about internal operating processes or investigations. This report is intended solely for the use of USAC, the Beneficiary, and the 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 audit disclosed that one of the Beneficiary’s Service Providers did not comply with FCC Rules, as set forth in the one detailed audit finding and one other matter discussed below.

Audit Results	Monetary Effect	Recommended Recovery
Finding No. 1, FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 (2021); FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 (2021) – Service Provider Invoiced the E-Rate Program for Rates That Exceeded Amounts Approved for Funding and Duplicative Services. One of the Beneficiary’s Service Providers invoiced rates that exceeded the amounts requested on the FCC Form 471 and invoiced USAC for duplicative services.	\$3,237	\$3,237
Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, para. 235 – Service Provider Billed the Beneficiary for the Discounted Share of Costs While Using the Service Provider Invoice (SPI) Method. One of the Beneficiary’s Service Provider billed the Beneficiary for the discounted share of service costs under the SPI method.	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$3,237</u>	<u>\$3,237</u>

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. USAC may review other FCC forms and documents filed by the Beneficiary and Service Provider during the audited Funding Year that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments. USAC will request the 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/wp-content/uploads/e-rate/documents/invoicing/e-rate-invoicing-requirements-guide.pdf>
- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/fcc-form-474-filing/>

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.

FRN	Recovery Amount
2299035493	\$3,237

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with FCC Rules for Funding Year (FY) 2022. The Beneficiary is a school district located in Tarrant County, Texas, that serves more than 3,000 students.

The following chart summarizes the E-Rate support amounts committed and disbursed to the Beneficiary for FY 2022 as of March 28, 2024, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Data Transmission and/or Internet Access	\$134,112	\$131,772
Internal Connections	\$51,678	\$51,678
Total	<u>\$185,790</u>	<u>\$183,450</u>

The “amount committed” total represents three FCC Form 471, *Description of Services Ordered and Certification Form*, applications submitted by the Beneficiary for FY 2022 containing five Funding Request Numbers (FRNs). We selected a sample of three of the FRNs,² which represent \$144,598 of the funds committed and disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

² Our sample included FRNs 2299035493, 2299038377, and 2299053448.

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 conducted inquiries, performed direct observation, and inspected 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 Bidding Process

We obtained and examined documentation to determine whether the Beneficiary: 1) properly evaluated all bids received, and 2) considered the price of the eligible equipment and services as the primary factor in selecting its Service Providers. We also obtained and examined evidence to determine whether the Beneficiary waited the required 28 days from the date the FCC Form 470, *Description of Services Requested and Certification Form*, was posted on USAC's website before signing contracts with the selected Service Providers. Additionally, we examined the Service Provider contracts to determine whether the Beneficiary and the Service Providers properly executed the contracts.

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 selected Service Provider bills were consistent with the terms and specifications of the selected Service Provider agreements. We also examined documentation to determine whether the Beneficiary timely paid its non-discounted share to the selected Service Providers.

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 invoices that the Beneficiary and the selected Service Providers submitted to USAC for reimbursement and performed procedures to determine whether the Beneficiary and the selected Service Providers had properly invoiced USAC. Specifically, we reviewed invoices associated with the BEAR and SPI Forms for equipment and services provided to the Beneficiary. We verified that the equipment and services identified on the BEAR and SPI Forms and the corresponding selected Service

Provider bills were consistent with the terms and specifications of the selected Service Provider agreements and were eligible in accordance with the E-Rate Eligible Services List.

Detailed Audit Findings

Finding No. 1, FCC Form 473, SPAC Form at Block 2 (2021); FCC Form 474, SPI Form at Block 3 (2021) – Service Provider Invoiced the E-Rate Program at Rates That Exceeded Amounts Approved for Funding and for Duplicative Services

Condition

One of the Beneficiary's selected Service Providers, AT&T, incorrectly calculated eligible service costs when preparing the SPI Forms for services funded by FRN 2299035493.³ Specifically, AT&T over-invoiced USAC for Internet access services, as follows:

- **Rates That Exceeded the Amount Approved for Funding.** From September 2022 through March 2023, AT&T invoiced the E-Rate program \$1,600 monthly for the Beneficiary's 10GB port connection, rather than the \$1,300 that USAC approved for funding. As a result, AT&T over-invoiced the E-Rate program \$2,135 (including applicable taxes).
- **Duplicative Services.** In September 2022, AT&T installed—and began billing for—a circuit upgrade at one of the Beneficiary's locations; however, it also continued to bill for the replaced circuit. As a result, AT&T invoiced the E-Rate program \$20,868 for circuits that were no longer in service.

AT&T invoiced the E-Rate program a total of \$68,162 (pre-discount) for services provided to the Beneficiary from July 2022 through March 2023. AT&T did not invoice for services from April through June 2023 because the costs exceeded the FRN ceiling. We reviewed AT&T's bills for the entire FY and determined that the bills supported \$64,116 in total eligible prediscount costs. As a result, AT&T over-invoiced USAC a net total of \$4,046 (\$68,162 less \$64,116) for which USAC disbursed \$3,237 (\$4,046 multiplied by the Beneficiary's 80 percent discount rate).

Cause

AT&T did not have adequate controls in place to ensure that amounts invoiced to the E-Rate program did not exceed amounts approved for funding and did not include duplicative services.

Effect

The monetary effect of this finding is \$3,237 (\$4,046 that was over-invoiced multiplied by the Beneficiary's 80 percent discount rate).

³ 47 C.F.R. § 54.504(f)(4) (2021).

Support Type	Monetary Effect	Recommended Recovery
Internet Access FRN 2299035493	<u>\$3,237</u>	<u>\$3,237</u>
Total	<u>\$3,237</u>	<u>\$3,237</u>

Recommendations

We recommend that:

1. USAC Management seek recovery of the amount identified in the Effect section above.
2. The Service Provider implement controls and procedures to ensure that SPI Forms are accurate before invoicing the E-Rate program.

Service Provider Response

AT&T has made the correction to the customer's account and is prepared to return funds in the amount of \$3,237 to USAC.

Other Matter No. 1, First 2014 E-Rate Order, FCC 14-99, Para. 235 – Service Provider Billed the Beneficiary for the Discounted Share of Costs While Using the SPI Method

Condition

We obtained and examined one of the Beneficiary's selected Service Provider's, AT&T's, bills to determine whether the Service Provider only billed the Beneficiary for the non-discounted portion of costs on the bills, plus the costs of any ineligible equipment and/or services. Specifically, for Funding Year2022, the Beneficiary elected to receive E-Rate reimbursement from USAC for the following FRNs using the Service Provider Invoice (SPI) method⁴ at the following discount rate:

FRN	Discount Rate
2299035493	80%

Under the SPI method, service providers bill beneficiaries for only the non-discounted share of costs for eligible equipment and services (and the costs for any ineligible equipment and services), and invoice USAC for the remaining discounted share of the costs for eligible equipment and services. Thus, under the SPI method, beneficiaries are responsible for paying service providers only for the non-discounted share of costs (plus the costs of any ineligible equipment and services), and the service provider is required to invoice USAC for the discounted share of costs of eligible equipment and services in order to receive payment.⁵ However, in this case, the Service Provider instead billed the Beneficiary for the *full pre-discount costs* of the

⁴ *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, FCC 14-99, para. 234-235 (2014) (*First 2014 E-Rate Order*). See also *Federal-State Joint Board On Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, at para. 586 (1997); *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 44, 46-47 (2003) (*Second Report and Order*); 47 CFR 54.514(c) (2021); 47 C.F.R. § 54.504(f)(5) (2021) and SPI Form, FCC Form 474, Block 3 (2021).

⁵ *Id.*

eligible equipment and/or services for the FRNs listed in the table above, rather than only the Beneficiary's non-discounted share of the costs (plus the costs of any ineligible equipment and services). After the Service Provider received reimbursement for the discounted share of the costs from USAC, it posted a credit for the same amount to the Beneficiary's accounts to be applied to future billing periods.

Cause

The Service Provider did not have adequate controls and procedures in place to ensure compliance with FCC Rules.

Effect

As a result of the above-described improper use of the SPI method, the Service Provider charged and collected more than the Beneficiary's non-discounted portion of costs of the eligible equipment and services during the period at issue. However, there is no monetary effect since the Service Provider ultimately passed through the SPI payments and applied E-Rate credits to the Beneficiary's subsequent bills. We note that, by selecting the SPI reimbursement method, the Beneficiary was only required to pay the Service Provider the non-discounted portion of the costs of the eligible equipment and services. Requiring that the Beneficiary pay the full pre-discount costs and wait for reimbursement of the discounted portion of the costs in the form of a credit on subsequent bills is inconsistent with E-Rate program rules.⁶ In addition, requiring beneficiaries to pay the full pre-discount costs could create serious cash flow problems and could disproportionately affect the most disadvantaged schools and libraries.⁷

Recommendation

The Service Provider must implement policies, controls, and procedures to obtain and process FRN funding details so that it can apply billing discounts on a timely basis, and ensure that beneficiaries who select the SPI invoicing method are billed only for the non-discounted share of costs for the eligible equipment and services (plus the cost of any ineligible equipment and services). The Service Provider should familiarize itself with the FCC Rules related to invoicing at <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>. Additionally, the Service Provider can learn more about E-Rate program 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/>.

Service Provider Response

AT&T's SPI method process is compliant with current FCC rules. AT&T applies E-Rate credits to customers' bills after AT&T receives all information necessary to verify the services and accounts that are subject to the E-Rate discount. AT&T requests customers to provide relevant information early in the process and, in its Welcome Package, AT&T provides customers with a "Grid" identifying relevant information needed by AT&T to apply E-rate credits. AT&T applies E-rate credits to customers' bills after receiving the completed Grid.

⁶ See *First 2014 E-Rate Order*, FCC 14-99, at para. 235; *Second Report and Order*, FCC 03-101, at paras. 46-47 and *First Universal Service Order*, FCC 97-157, para. 586.

⁷ See *Second Report and Order*, FCC 03-101, at para. 47.

In this case, the customer did not provide AT&T with the completed Grid until 10/27/2023 (4 months after the end of funding year 2022). The late Grid receipt required AT&T to systematically process disbursements & ensure posting to the bill prior to invoicing USAC.

NOTE: The FCC is considering this issue of SPI invoicing in a current rulemaking proceeding. AT&T is an active participant in the proceeding and has filed both comments and reply comments explaining its SPI processes. Please refer to AT&T comments⁸.

Auditor Response

Although the Service Provider stated that E-Rate credits were delayed due to late submission of the required information by the Beneficiary, the SPI invoicing method the Beneficiary is only required to pay for the non-discounted portion of the costs of E-Rate eligible equipment and services (plus the cost of any ineligible equipment and services). Additionally, there is increased risk that the Beneficiary could overpay its non-discounted share of the costs of eligible equipment and services when discounts are not applied on a monthly basis, because it is more difficult to detect missing or inaccurate discounts when they are not recorded in the same month that services are billed. Because asking the Beneficiary to pay both the discounted and non-discounted portions of the cost of eligible equipment and services (plus the cost of any ineligible equipment and services) upfront is not consistent with the intent of the SPI invoicing method, our position regarding the other matter has not changed.

Criteria

Finding	Criteria	Description
1	FCC Form 473, Service Provider Annual Certification (SPAC) Form, OMB 3060-0856, at Block 2 (2021)	<p><i>9. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider contain requests for universal service support for services which have been billed to the Service Provider's customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal service support by the fund administrator.</i></p> <p><i>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.</i></p>

⁸ See, AT&T Comments and Reply Comments, Schools and Libraries Universal Service Support Mechanism; Federal -State Joint Board on Universal Service; Changes to the Board of Directors of the National Exchange Carrier Association, Inc., *Report and Order and Further Notice of Proposed Rulemaking*, CC Docket No. 02-6; CC Docket No. 96-45, CC Docket No. 97-21, released July 21, 2023.

Finding	Criteria	Description
		<p>11. I certify that the bills or invoices submitted 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> <p>23. I certify that, in addition to the foregoing, this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program, and acknowledges that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.</p>
1	FCC Form 474 Service Provider Invoice (SPI) Form at Block 3 (2021)	<p>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:</p> <p>A. I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.</p>
1	47 C.F.R. § 54.504(f)(4) (2021)	<p>The FCC Form 473 shall be signed by an authorized person and shall include that person's certification under oath that: The service provider listed on the FCC Form 473 certifies that the invoices that are submitted by this Service Provider to the Billed Entity for reimbursement pursuant to Billed Entity Applicant Reimbursement Forms (FCC Form 472) are accurate and represent payments from the Billed Entity to the Service Provider for equipment and services provided pursuant to E-rate program rules.</p>

Other Matter	Criteria	Description
1	Modernizing the E-rate Program for Schools and Libraries, WC Docket No. 13-184, Report and Order and Further Notice of Proposed	<p>We take this opportunity to reiterate that E-Rate applicants continue to have the option of electing BEAR or SPI reimbursement. Thus, when the applicant pays only the discounted cost of the services directly to the service provider through the SPI process, the service provider will continue to file a SPI form with USAC to receive reimbursement.</p>

Other Matter	Criteria	Description
	Rulemaking, FCC 14-99, para. 235 (2014) (First 2014 E-Rate Order)	
1	<i>Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, FCC 14-99, para. 234, n.567 (2014) (<i>First 2014 E-Rate Order</i>)	<i>Applicants also have the option of using the Service Provider Invoicing (SPI) process. Under the SPI process the applicant pays only the reduced cost of the services directly to the service provider, and then the service provider must file an FCC Form 47[4] (SPI Form) with USAC to receive its reimbursement.</i>
1	<i>Federal-State Joint Board on Universal Service</i> , CC Docket No. 96-45, Report and Order, FCC 97-157, para. 586 (1997)	<i>We conclude that requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.</i>
1	<i>Schools and Libraries Universal Service Support Mechanism</i> , CC Docket No. 02-6, Second Report and Order and Further Notice of Proposed Rulemaking, FCC 03-101, paras. 44, 46-47 (2003)	<p><i>We first conclude that we should adopt a rule requiring service providers to give applicants the choice each funding year either to pay the discounted price or to pay the full price and then receive reimbursement through the BEAR process. . . . We find that providing applicants with the right to choose [their] payment method is consistent with section 254. Although section 254(h)(1)(B) requires that telecommunications carriers providing discounted service be permitted to choose the method by which they receive reimbursement for the discounts that they provide to schools and libraries, i.e., between receiving either a reimbursement for the discount or an off-set against their obligations to contribute to the universal service fund, the statute does not require that they be permitted to choose the method by which they provide those discounts to the school or library in the first place.</i></p> <p><i>In addition, we find that providing applicants with the right to choose which payment method to use will help to</i></p>

Other Matter	Criteria	Description
		<i>ensure that all schools and libraries have affordable access to telecommunications and Internet access services. The Commission previously noted in the Universal Service Order that “requiring schools and libraries to pay in full could create serious cash flow problems for many schools and libraries and would disproportionately affect the most disadvantaged schools and libraries.”. In light of the record before us, we conclude that the potential harm to schools and libraries from being required to make full payment upfront, if they are not prepared to, justifies giving applicants the choice of payment method.</i>
1	47 CFR 54.514(c) (2021)	<i>Choice of payment method. Service providers providing discounted services under this subpart in any funding year shall, prior to the submission of the FCC Form 471, permit the billed entity to choose the method of payment for the discounted services from those methods approved by the Administrator, including by making a full, undiscounted payment and receiving subsequent reimbursement of the discount amount from the Administrator.</i>
1	47 C.F.R. § 54.504(f)(5) (2021)	<i>The service provider listed on the FCC Form 473 certifies 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.</i>
1	Service Provider Invoice (SPI) Form, FCC Form 474, Block 3 (2021)	<i>Item A - I certify that this Service Provider is in compliance with the rules and orders governing the schools and libraries universal service support program and I acknowledge that failure to be in compliance and remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.</i>

Sikich CPA LLC

INFO Item: Audit Released June 2025

Attachment Q

7/28/2025

Attachment Q

SL2023LR029

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

NASH-EDGECOMBE ECONOMIC DEVELOPMENT, INC.

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

USAC AUDIT No. SL2023LR029



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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
NASH-EDGECOMBE ECONOMIC DEVELOPMENT, INC.
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
E-RATE SUPPORT MECHANISM RULES**

Executive Summary

July 3, 2024

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:

Sikich CPA LLC¹ (referred to as “we”) audited the compliance of Nash-Edgcombe Economic Development, Inc. (Beneficiary), Billed Entity Number (BEN) 16073196, using regulations set forth in 47 C.F.R. Part 54 and orders and other program requirements governing the federal Universal Service E-Rate program (collectively, Federal Communications Commission [FCC] Rules). Compliance with FCC Rules is the responsibility of the Beneficiary. Our responsibility is to make a determination regarding the Beneficiary’s compliance with FCC Rules based on our performance audit.

We conducted this performance audit in accordance with our contract with the Universal Service Administrative Company (USAC) and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States (2018 Revision). Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, a virtual inventory of equipment purchased and maintained, as well as 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 audit disclosed seven detailed audit findings,

¹ Effective December 14, 2023, we amended our legal name from “Cotton & Company Assurance and Advisory, LLC” to “Sikich CPA LLC” (herein referred to as “Sikich”).

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 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.

Audit Results and Recovery Action

Based on the test work performed, our audit found that the Beneficiary did not comply with FCC Rules, as provided in the seven detailed audit findings discussed below.

Audit Results	Monetary Effect ²	Overlapping Recovery ³	Recommended Recovery ⁴	Downward Commitment Adjustment
Finding No. 1, 47 C.F.R 54.501(a)(1) (2020) – Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Programs. The Beneficiary did not remove the cost of services for ineligible programs from one of its funding requests.	\$31,149	\$0	\$31,149	\$31,149
Finding No. 2, 47 C.F.R. § 54.502(a) (2020) – Service Provider Invoiced E-Rate Program for Ineligible Services. One of the Beneficiary’s Service Providers invoiced the E-Rate program for ineligible network administration services.	\$9,690	\$0	\$9,690	\$0
Finding No. 3, FCC Form 473, Service Provider Annual Certification (SPAC) Form at	\$6,278	\$0	\$6,278	\$0

² The monetary effect column represents the actual dollar effect of the finding without taking into account any recovery that overlaps between findings. The total in this column may therefore be more than the amount that was committed and disbursed to the Beneficiary.

³ The overlapping recovery column represents disbursements that have already been recommended for recovery in a previous finding and therefore cannot be recovered as part of the current finding.

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

Audit Results	Monetary Effect ²	Overlapping Recovery ³	Recommended Recovery ⁴	Downward Commitment Adjustment
Block 2, FCC Form 474 (2020), Service Provider Invoice (SPI) Form at Block 3 (2020) – Service Provider Invoiced the E-Rate Program for Amounts Exceeding those Approved for Funding. One of the Beneficiary’s Service Providers invoiced the E-Rate program Internet access fees for more connections than had been approved for funding.				
Finding No. 4, FCC Form 473, SPAC Form at Block 2, FCC Form 474 (2020), SPI Form at Block 3 (2020) – Service Provider Invoiced the E-Rate Program for Equipment Not Provided. One of the Beneficiary’s Service Providers invoiced the E-Rate program for equipment that differed from the equipment actually provided to the Beneficiary.	\$813	\$0	\$813	\$0
Finding No. 5, 47 C.F.R. § 54.507(d) (2020) – Service Provider Invoiced the E-Rate Program for Services Delivered Outside the Funding Year. One of the Beneficiary’s Service Providers invoiced the E-Rate program for services provided after the funding year ended.	\$5,653	\$5,653	\$0	\$0
Finding No. 6, FCC Form 473, SPAC Form at Block 2, FCC Form 474 (2020), SPI Form at Block 3 (2020) – Service Providers Invoiced the E-Rate Program for Amounts Not Reconciled to the Service Provider Bills. One of the Beneficiary’s Service Providers invoiced the E-Rate program for services not billed to the Beneficiary.	\$0	\$0	\$0	\$0

Audit Results	Monetary Effect ²	Overlapping Recovery ³	Recommended Recovery ⁴	Downward Commitment Adjustment
Finding No. 7, 47 C.F.R. §54.511(a) (2020) – Beneficiary Failed to Comply with Competitive Bidding Requirements. The Beneficiary did not consider all bids received when it procured internal connections equipment.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Net Monetary Effect	<u>\$53,583</u>	<u>\$5,653</u>	<u>\$47,930</u>	<u>\$31,149</u>

Lack of Beneficiary Response to the Audit Report

We sent the draft audit report to the Beneficiary on April 22, 2024, and asked for its formal written response to the audit findings by May 6, 2024. In response to the Beneficiary’s requests for additional time, we repeatedly extended the due date for the final report. As we still had not received a formal response⁵ from the Beneficiary as of July 1, 2024, over two months after the draft audit report was provided, we informed the Beneficiary that we would be submitting our draft audit report to USAC without its response.

Lack of Service Provider Response to the Audit Report

We sent two of the Beneficiary’s Service Providers details on audit findings relevant to the Service Provider and requested their responses by May 6, 2024. One of the Service Providers, Sunshine Solutions, did not provide responses to the audit findings. We followed up with Sunshine Solutions by e-mail on June 3, 2024. The Service Provider replied on June 7 that it would respond to the audit findings by June 10, but as of July 1, 2024, we had not received its responses. We submitted our draft audit report to USAC without Sunshine Solutions’ responses. The other Service Provider’s responses were received and are included in this report.

USAC Management Response

USAC Management concurs with the Audit Results stated above and will issue a downward commitment adjustment and seek a recovery of funds as recommended. See the chart below for the recovery amounts. USAC may review other FCC forms and documents filed by the Beneficiary and Service Provider during the audited Funding Year that were not in the scope of this audit and there may be additional recoveries and/or commitment adjustments. USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC also refers the Beneficiary and Service Provider to our website for additional resources. Various links are listed below:

- <https://www.usac.org/e-rate/service-providers/step-5-invoicing/>

⁵ Although a formal response was not provided, the Beneficiary did provide additional documentation in response to the draft report that was sufficient to resolve a finding originally included in the draft audit report, which reduced recommended recovery by \$38,733. We have modified our report accordingly.

- <https://www.usac.org/e-rate/applicant-process/before-you-begin/eligible-services-overview/cost-allocations-for-services/>.
- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Fall Training: E-Rate Program Overview, October 3, 2023). (Please see timestamp 14:15-18:55).
- <https://www.usac.org/e-rate/learn/webinars/> (E-Rate Fall Training: Invoicing, November 09, 2023). (Please see timestamps 8:50-11:15, 13:35-14:20, 23:40-26:05, 29:05-30:30, and 56:50-58:40).
- <https://www.usac.org/wp-content/uploads/e-rate/documents/Webinars/2023/Filing-the-FCC-Form-470-and-Competitive-Bidding.pdf> (Please see slide 44).

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

FRN	Recovery Amount
2199038471	\$37,427
2199040072	\$9,690
2199038689	\$813
Total	<u>\$47,930</u>

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) 2021. The Beneficiary is a school district located in Rocky Mount, North Carolina, that serves approximately 633 Head Start students.

The following chart summarizes the E-Rate program support amounts committed and disbursed to the Beneficiary for FY 2021 as of November 14, 2023, the date that we completed our initial fieldwork testing.⁶

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$14,076	\$14,076
Basic Maintenance of Internal Connections	\$9,690	\$9,690
Internet Access	<u>\$299,587</u>	<u>\$265,468</u>
Total	<u>\$323,353</u>	<u>\$289,234</u>

The “amount committed” total represents two FCC Form 471 *Description of Services Ordered and Certification Form*, applications submitted by the Beneficiary for FY 2021 that resulted in six Funding Request Numbers (FRNs). We selected a sample of four FRNs⁷, which represent

⁶ On November 14, 2023, we expanded the audit scope to include \$43,695 disbursed for FRN 2199038471 after our audit announcement date of February 22, 2023.

⁷ We tested FRNs 2199009885, 2199040072, 2199038471, and 2199038689.

\$318,485 of the funds committed and \$289,234 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. We obtained and examined documentation to determine whether it supported the Beneficiary's effective use of funding and to ensure adequate controls existed to determine whether funds were used in accordance with FCC Rules. We conducted 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 its accuracy.

B. Competitive Bidding Process

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

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 selected Service Provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share to the Service Providers in a timely manner.

D. Site Visit

We performed a virtual inspection to confirm 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 funding was requested. We also evaluated the equipment and services the Beneficiary purchased to determine whether the Beneficiary used the funding in an effective manner.

E. Reimbursement Process

We obtained and examined invoices submitted for reimbursement for the equipment and services delivered to the Beneficiary and performed procedures to determine whether USAC was invoiced properly. 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 Forms and SPI Forms and corresponding Service Provider bills were consistent with the terms and specifications of the selected 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. § 54.501(a)(1) (2020) – Beneficiary Did Not Allocate Requested Services Between Eligible and Ineligible Programs

Condition

The Beneficiary requested funding for Internet access services for nine locations under FRN 2199038471. The locations included two non-instructional facilities (NIFs) that also housed programs that were unrelated to the educational Head Start program⁸ and were therefore ineligible for E-Rate program funding. The Beneficiary internally applied allocation percentages to remove the ineligible costs allocable to the unrelated programs in its financial system and it paid its non-discount share from the multiple program accounts; however, it did not remove the ineligible costs from its FCC Form 471 request for services. Further, it did not inform the Service Provider that a portion of its fees were ineligible. As a result, the Beneficiary received funding for—and the Service Provider invoiced the E-Rate program for—all Internet access services for these locations. Based on the Beneficiary’s allocation percentages, \$34,610 of the Beneficiary’s FY 2021 internet access services related to ineligible programs and therefore should not have been invoiced to the E-Rate program.

The Beneficiary stated that it had erroneously allocated these costs to the other programs. It provided bills for Internet access services from another Service Provider at the administrative sites and stated that the other programs only used those services. However, we noted that the other Service Provider’s bills were also allocated to the Head Start program, and the Beneficiary could not provide documentation supporting its assertion that the other programs did not use the Internet access services funded by FRN 2199038471.

Cause

The Beneficiary did not have adequate policies, controls and procedures in place to ensure it removed costs related to ineligible locations from its E-Rate funding requests.

Effect

The monetary effect of this finding is \$31,149 (\$34,610 multiplied by the Beneficiary’s 90 percent discount rate).

⁸ The two unrelated programs were the Community Service Block Grant (CSBG) and Section 8 programs. CSBG funding provides employment, education (e.g., summer education programs, college-readiness preparation support and adult literacy classes), income and asset building services, housing nutrition, emergency services and/or healthcare based on community needs. Section 8, also known as the Housing Choice Voucher Program, is a federal program for assisting low-income families, the disabled and elderly with housing.

Support Type	Monetary Effect	Recommended for Recovery	Downward Commitment Adjustment
Internet Access FRN 2199038471	\$31,149	\$31,149	\$31,149

Recommendations

We recommend that:

1. The E-Rate program seek recovery of, and record a downward commitment adjustment for, the amounts identified in the Effect section above.
2. The Beneficiary implement policies, controls and procedures to ensure that it only requests E-Rate program funding for eligible services.

Beneficiary Response

As explained in Audit Results and Recovery Action section above, the Beneficiary did not provide a formal written response to the draft audit report findings.

Finding No. 2, 47 C.F.R. § 54.502(a) (2020) – The Service Provider Invoiced E-Rate Program for Ineligible Services

Condition

Sunshine Solutions, the Service Provider for the Basic Maintenance of Internal Connections (BMIC) services funded under FRN 2199040072, invoiced the E-Rate program for ineligible services. Specifically, the contract between the Beneficiary and the Service Provider described the BMIC services as “Support, 12-month 24x7 email & phone support,” and included providing the Beneficiary with network administrative services, which are not eligible in accordance with the FY 2021 Eligible Services List.⁹ Although the Service Provider’s bills did not provide any detail regarding the services provided, its maintenance logs indicate that the Service Provider set up laptops and e-mail accounts and provided troubleshooting for e-mail issues. Further, the Service Provider stated that its services included inspecting and maintaining network cables and connections, updating, and optimizing network switches and routers, and handling Wi-Fi access points, as well as changing passwords, fixing viruses, monitoring Microsoft Exchange, and setting up email for new staff.

The Service Provider invoiced the E-Rate program for \$11,400 for the BMIC services. Although some of these services may be eligible for E-Rate program funding, because neither the Beneficiary nor the Service Provider maintained records to support which costs related to ineligible services, we cannot determine the amount eligible for E-Rate funding.

⁹ See *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, DA 20-1418, Eligible Services List for Funding Year 2021, Appendix B (WCB 2020).

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure it did not invoice the E-Rate program for ineligible services. The Beneficiary did not have adequate policies and procedures to ensure that it did not request E-Rate funding for ineligible services.

Effect

The monetary effect of this finding is \$9,690 (\$11,400 multiplied by the Beneficiary's 85 percent discount rate).

Support Type	Monetary Effect	Recommended for Recovery
BMIC FRN 2199040072	\$9,690	\$9,690

Recommendations

We recommend that:

- 1) The E-Rate program seek recovery of the amount identified in the Effect section above.
- 2) The Service Provider implement policies, controls and procedures to ensure that it only invoices the E-Rate program for the cost of eligible services that USAC has approved for funding.
- 3) The Beneficiary implement policies and procedures to ensure that it does not request E-Rate funding for ineligible services.

Service Provider Response

As explained in Audit Results and Recovery Action section above, the Service Provider did not provide a response to the draft audit report findings.

Beneficiary Response

As explained in Audit Results and Recovery Action section above, the Beneficiary did not provide a formal written response to the draft audit report findings.

Finding No. 3, FCC Form 473, SPAC Form at Block 2 (2020); FCC Form 474, SPI Form at Block 3 (2020) – Service Provider Invoiced E-Rate Program for Amounts Exceeding Those Approved for Funding

Condition

Cost Cutters, the Service Provider for Internet access services funded by FRN 2199038471, invoiced the E-Rate program for more Internet connections than had been approved for funding.¹⁰ Specifically, the Service Provider invoiced the E-Rate program monthly for Internet connections at nine locations. On November 5, 2021, the Service Provider submitted an additional SPI for \$6,975 for three months (July - September 2021) of service to a tenth location

¹⁰ 47 C.F.R. § 54.504(f)(4), (5) (2020).

(207 East Pine Street). However, this billing exceeded the amount funded in the Beneficiary's FCC Form 471 for this FRN, which only requested funding for nine Internet connections.

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure that it only invoiced USAC for services that had been approved for funding.

Effect

The monetary effect of this finding is \$6,278 (\$6,975 multiplied by the Beneficiary's 90 percent discount rate).

Support Type	Monetary Effect	Recommended for Recovery
Internet Access FRN 2199038471	\$6,278	\$6,278

Recommendation

We recommend that:

- 1) The E-Rate program seek recovery of the amount identified in the Effect section above.
- 2) The Service Provider implement policies, controls and procedures to ensure that it only invoices the E-Rate program for the cost of services that were approved for funding.

Service Provider Response

This was a clerical error made as the tenth location was approved for the years prior and we were unaware that the number of locations were reduced in the 471. We will review the 471 filing more closely at the start of each Funding year.

Finding No. 4, FCC Form 473, SPAC Form at Block 2 (2021); FCC Form 474, SPI Form at Block 3 (2020) – Service Provider Invoiced E-Rate Program for Equipment Not Provided

Condition

Sunshine Solutions, the Service Provider for the internal connections services funded under FRN 2199038689, invoiced the E-Rate program for equipment that differed from the equipment the Service Provider actually provided to the Beneficiary.¹¹ Specifically, the Beneficiary requested E-Rate program funding for a 50U rack on its FCC Form 471 and specified this item in its contract with the Service Provider. The Service Provider subsequently determined that the larger rack was unnecessary and instead provided the Beneficiary with a 20U rack. However, the Service Provider still billed the Beneficiary for the 50U rack (which totaled \$1,289) rather than for the 20U rack that it actually installed (which totaled \$333, per the Service Provider's records).

¹¹ 47 C.F.R. § 54.504(f)(4), (5) (2020).

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure that it accurately billed the Beneficiary for the equipment delivered.

Effect

The monetary effect of this finding is \$813 ($\$1,289 - \$333 = \956, multiplied by the Beneficiary's 85 percent discount rate).

Support Type	Monetary Effect	Recommended for Recovery
Internal Connections FRN 2199038689	\$813	\$813

Recommendations

We recommend that:

- 1) The E-Rate program seek recovery of the amount identified in the Effect section above.
- 2) The Service Provider implement policies, controls and procedures to ensure that it accurately invoices the E-Rate program for equipment delivered to the Beneficiary.

Service Provider Response

As explained in Audit Results and Recovery Action section above, the Service Provider did not provide a response to the audit report findings.

Finding No. 5, 47 C.F.R. § 54.507(d) (2020) – Service Provider Invoiced the E-Rate Program for Services Delivered Outside the Funding Year**Condition**

Sunshine Solutions, the Service Provider for the BMIC services funded under FRN 2199040072, invoiced the E-Rate program \$11,400 for FY 2021 services under this FRN.¹² However, the Service Provider's bill supports that the \$11,400 in services were provided from February 2022 through January 2023. The services therefore extended 7 months beyond USAC's FY 2021 service delivery deadline of June 30, 2022. The cost of the services billed and invoiced to USAC for the 7 months that took place outside the funding year was \$6,650 ($\$11,400/12=\950 per month, multiplied by 7 months).

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure that it only invoiced the E-Rate program for costs incurred during the relevant funding year.

¹² 47 C.F.R. § 54.504(f)(4), (5) (2020).

Effect

The monetary effect of this finding is \$5,653 (\$6,650 multiplied by the Beneficiary's 85 percent discount rate). We do not recommend recovery because these fees duplicate amounts recommended for recovery in Finding No. 3.

Support Type	Monetary Effect	Recommended for Recovery
Internal Connections FRN 2199040072	\$5,653	\$0

Recommendation

We recommend that the Service Provider implement policies, controls and procedures to ensure that it only invoices the E-Rate program for the cost of services provided during the relevant funding year.

Service Provider Response

As explained in Audit Results and Recovery Action section above, the Service Provider did not provide a response to the audit report findings.

Finding No. 6, FCC Form 473, SPAC Form at Block 2 (2020); FCC Form 474, SPI Form at Block 3 (2020) – Service Provider Invoiced E-Rate Program for Amounts Not Reconciled to Service Provider Bills**Condition**

Sunshine Solutions, the Service Provider for internal connections funded under FRN 2199038689, submitted a SPI Form for \$16,561 for FY 2021 services. Initially, the Beneficiary was unable to provide support for the \$16,561 in invoiced costs as the Service Provider had not billed them for their non-discount share. However, the Beneficiary later obtained the bill from the Service Provider and paid its non-discount share in May 2023, in response to our audit requests.

Cause

The Service Provider did not have adequate policies, controls and procedures in place to ensure that it only invoiced the E-Rate program for services billed to the Beneficiary.

Effect

The monetary effect for FRN 2199038689 is \$14,905 (\$16,561 multiplied by the Beneficiary's 90 percent discount rate). However, because the Beneficiary has paid its non-discount share of costs invoiced for FRN 2199038689, we are not recommending recovery of that amount.

Support Type	Monetary Effect	Recommended for Recovery
Internal Connections FRN 2199038689	<u>\$14,905</u>	<u>\$0</u>

Recommendation

We recommend that the Service Provider implement policies, controls and procedures to ensure that it does not submit invoices to the E-Rate program before it bills the Beneficiary for its non-discounted share.

Service Provider Response

As explained in Audit Results and Recovery Action section above, the Service Provider did not provide a response to the audit report findings.

Finding No. 7, 47 C.F.R. § 54.511(a) (2020) – Beneficiary Failed to Comply with Competitive Bidding Requirements

Condition

The Beneficiary did not appropriately document its evaluation of, or consider all bids received when it procured internal connections equipment for FRN 2199038689.¹³ The Beneficiary's FCC Form 471 for this FRN indicated that it only received one bid for internal connections, from a Service Provider called Sunshine Solutions. However, the Beneficiary's bid documentation showed that it had received and evaluated two bids for this procurement. In addition, in response to our audit inquiries, a third service provider, CDW-G, provided us with a copy of the bid it had submitted for this procurement, which the Beneficiary did not evaluate. We compared the three bids received and determined that the Service Provider the Beneficiary selected, Sunshine Solutions, offered the lowest price for the equipment procured. The Beneficiary therefore appears to have awarded the contract to the most cost-effective bidder, despite its issues in documenting and executing the procurement of this equipment.¹⁴

Cause

The Beneficiary did not have sufficient policies, controls and procedures in place to ensure that it properly evaluated, or documented its evaluation of, all bids received for E-Rate services.

Effect

This has no monetary effect because the contract was awarded to the lowest cost bidder. However, by not properly documenting and evaluating bids, the Beneficiary is not complying with FCC Rules regarding documentation and risks improperly awarding contracts based on bids that are not cost-effective.¹⁵

¹³ 47 C.F.R. §54.503(c)(2)(ii)(B) (2020); 47 C.F.R. §54.504(a)(1)(ix) (2020); and 47 C.F.R. §54.516(a)(1) (2020) require that beneficiaries consider all submitted bids and retain documentation to support compliance with E-Rate regulations.

¹⁴ See *Requests for Review of Decisions of the Universal Service Administrator by Allendale County School District et al.; Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, [26 FCC Rcd 6109, 6115-17, DA 11-723](#) paras. 10-12 (WCB 2011) ([waiving the requirement that an applicant be able to demonstrate that it used price as the primary factor in vendor selection when the applicant selected the lowest priced option and there was no evidence of waste, fraud or abuse](#)).

¹⁵ See e.g. *Requests for Review of Decisions of the Universal Service Administrator by Central Islip Free Union School District*, CC Docket No. 02-6, Order, [26 FCC Rcd 8630, FCC 11-1087](#), paras. 4, 12, 19, 21 (WCB 2011).

Recommendation

We recommend that the Beneficiary implement policies, controls and procedures to ensure that it includes all bids received when performing its bid evaluations and that it maintains sufficient documentation to support it complies with FCC Rules regarding competitive bidding.

Beneficiary Response

As explained in Audit Results and Recovery Action section above, the Beneficiary did not provide a response to the draft audit report findings.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.501(a)(1) (2020)	<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. § 54.502(a) (2020)	<i>Supported services. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms. The supported services fall within the following general categories:</i> <i>(1) Category one. Telecommunications services, telecommunications, and Internet access, as defined in § 54.5 and described in the Eligible Services List are category one supported services.</i> <i>(2) Category two. Internal connections, basic maintenance and managed internal broadband services as defined in § 54.500 and described in the Eligible Services List are category two supported services.</i>
2	<i>Modernizing the E-Rate Program for Schools and Libraries, WC Docket No. 13-184, Order, DA 20-1418, Eligible Services List</i>	<i>Eligibility limitations for basic maintenance. . . . Basic maintenance does not include . . . network management services, including 24-hour networking monitoring.</i>

Finding	Criteria	Description
	for Funding Year 2021, Appendix B (WCB 2020)	
3, 4, 6	FCC Form 473, Service Provider Annual Certification (SPAC) Form at Block 2 (2020)	<p><i>9. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider contain requests for universal service support for services which have been billed to the Service Provider's customers on behalf of schools, libraries, and consortia of those entities, as deemed eligible for universal service support by the fund administrator.</i></p> <p><i>10. I certify that the Service Provider Invoice Forms (FCC Form 474) that are submitted by this Service Provider are based on bills or invoices issued by the Service Provider to the Service Provider's customers on behalf of schools, libraries, and consortia of those entities as deemed eligible for universal service support by the fund administrator, and exclude any charges previously invoiced to the fund administrator for which the fund administrator has not yet issued a reimbursement decision.</i></p> <p><i>11. I certify that the invoices submitted by the Service Provider to the Billed Entity are for equipment and services eligible for universal service support by the Administrator and exclude any charges previously invoiced to the Administrator by the Service Provider.</i></p> <p><i>12. I certify that any requests for reimbursement that are sought under a Service Provider Invoice Form (FCC Form 474) for discounts for products or services that contain both eligible and ineligible components are properly allocated as required by the Commission's rules at 47 C.F.R. § 54.504(e).</i></p>
3, 4, 6	FCC Form 474, Service Provider Invoice (SPI) Form at Block 3 (2020)	<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</i></p>

Finding	Criteria	Description
		<i>remain in compliance with those rules and orders may result in the denial of discount funding and/or cancellation of funding commitments.</i>
3, 4, 5, 6	47 C.F.R. § 54.504(f)(4), (5) (2020)	<p><i>(f)(4) The FCC Form 473 shall be signed by an authorized person and shall include that person's certification under oath that. . . The service provider listed on the FCC Form 473 certifies that the invoices that are submitted by this Service Provider to the Billed Entity for reimbursement pursuant to Billed Entity Applicant Reimbursement Forms (FCC Form 472) are accurate and represent payments from the Billed Entity to the Service Provider for equipment and services provided pursuant to E-rate program rules.</i></p> <p><i>(f)(5) The FCC Form 473 shall be signed by an authorized person and shall include that person's certification under oath that. . . The service provider listed on the FCC Form 473 certifies 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.</i></p>
5	47 C.F.R. § 54.507(d) (2020)	<p><i>Annual filing requirement. (1) Schools and libraries, and consortia of such eligible entities shall file new funding requests for each funding year no sooner than the July 1 prior to the start of that funding year. Schools, libraries, and eligible consortia must use recurring services for which discounts have been committed by the Administrator within the funding year for which the discounts were sought</i></p> <p><i>(4) 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</i></p>

Finding	Criteria	Description
		<i>year for which discounts are authorized; (iii) The applicant's service provider is unable to complete implementation for reasons beyond the service provider's control; or (iv) The applicant's service provider is unwilling to complete installation because funding disbursements are delayed while the Administrator investigates the application for program compliance.</i>
7	47 C.F.R. § 54.511(a) (2020)	<i>In selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.</i>
7	47 C.F.R. § 54.503(c)(2)(ii)(B) (2020)	<i>All bids submitted for eligible products and services will be carefully considered, with price being the primary factor, and the bid selected will be for the most cost-effective service offering consistent with §54.511.</i>
7	47 C.F.R. § 54.504(a)(1)(ix) (2020)	<i>All bids submitted to a school, library, or consortium seeking eligible services were carefully considered and the most cost-effective bid was selected in accordance with §54.503 of this subpart, with price being the primary factor considered, and it is the most cost-effective means of meeting educational needs and technology goals.</i>
7	47 C.F.R. § 54.516(a)(1) (2020)	<i>(a) Recordkeeping requirements—(1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.</i>

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