Schools & Libraries Committee Quarterly Meeting

Briefing Book

Monday, October 23, 2017

10:00 a.m. - 12:00 p.m. Eastern Time

Universal Service Administrative Co. Offices

700 12th Street, N.W., Suite 900

Washington, D.C. 20005

Universal Service Administrative Company
Schools & Libraries Committee Quarterly Meeting
Agenda

Monday, October 23, 2017
10:00 a.m. – 12:00 p.m. Eastern Time
USAC Offices
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

		Estimated Duration in Minutes
	OPEN SESSION	
Chair	**a1.** Consent Items (each available for discussion upon request): A. Approval of Schools and Libraries Committee Meeting Minutes of July 24, 2017 and August 29, 2017. B. Approval of moving all ***Executive Session*** items into ***Executive Session***.	5
Craig	**a2.** Approval of Schools and Libraries Support Mechanism 1st Quarter 2018 Programmatic Budget and Demand Projection for the November 2, 2017 FCC Filing.	10
Craig	**a3.** Consideration of Funding Year 2018 Filing Window Dates.	10
Chris Smith	**i1.** Information on Nine USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports – ***Executive Session Option.***	10
Craig	**i2.** Schools & Libraries Support Mechanism Business Update.	35

		Estimated Duration in Minutes
	EXECUTIVE SESSION	
Craig	**a4.** Consideration of IT Services Contract for E-rate Productivity Center (EPC) – **Confidential** – ***Executive Session Recommended***.	10
Craig	**a5.** Consideration of Amendment to Call Center and Business Process Outsourcing Services Agreement with Solix, Inc. – **Confidential** – ***Executive Session Recommended***.	10
Craig	**i3.** Information on Preliminary 2018 Annual Schools and Libraries Support Mechanism Budget – **Confidential** – ***Executive Session Recommended***.	30

Next Scheduled USAC Schools & Libraries Committee Meeting

Monday, January 29, 2018
10:00 a.m. – 12:00 p.m. Eastern Time
USAC Offices, Washington, D.C.

Universal Service Administrative Company
Schools & Libraries Committee Meeting

ACTION ITEM

Consent Items

Action Requested

The Schools & Libraries Committee (Committee) is requested to approve the consent items listed below.

Discussion

The Committee is requested to approve the following items using the consent resolution below:

A. Committee meeting minutes of July 24, 2017 and August 29, 2017 (*see* **Attachments A-1 and A-2**).

B. Approval for discussing in ***Executive Session*** agenda items:
   (1) **a4 –** Consideration of IT Services Contract for E-rate Productivity Center (EPC). USAC management recommends that discussion of this item be conducted in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration***.
   (2) **a5 –** Consideration of Amendment to Call Center and Business Process Outsourcing Services Agreement with Solix, Inc. USAC management recommends that discussion of this item be conducted in ***Executive Session*** because this item relates to ***procurement strategy and contract administration***.
   (3) **i3 –** Information on Preliminary 2018 Annual Schools and Libraries Support Mechanism Budget. USAC management recommends that discussion of this item be conducted in ***Executive Session*** because this item relates to ***procurement strategy and contract administration***.

Upon request of a Committee member any one or more of the above items are available for discussion by the Committee.

Recommended USAC Schools & Libraries Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Schools & Libraries Committee hereby approves the Committee meeting minutes of July 24, 2017 and August 29, 2017, and discussion in ***Executive Session*** of the items noted above.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

SCHOOLS & LIBRARIES COMMITTEE MEETING
Monday, July 24, 2017

(DRAFT) MINUTES[1]

The quarterly meeting of the USAC Board of Directors (Board) Schools & Libraries Committee (Committee) was held at USAC's offices in Washington, D.C. on Monday, July 24, 2017. Dr. Dan Domenech, Committee Chair, called the meeting to order at 10:01 a.m. Eastern Time, with all nine Committee members present:

Bocher, Bob
Buzacott, Alan
Choroser, Beth
Domenech, Dr. Dan – Chair
Fontana, Brent – *by telephone*
Hernandez, Dr. Mike
Mason, Ken – Vice Chair
Robinson, Vickie – Acting Chief Executive Officer, General Counsel and Assistant Secretary
Talbott, Dr. Brian

Other Board members and officers of the corporation present:

Davis, Craig – Vice President of Schools & Libraries
Garber, Michelle – Vice President of Lifeline
Kinser, Cynthia – Member of the Board
Lee, Karen – Vice President of Rural Health Care
Lubin, Joel – Member of the Board
Poulin, Chera – Vice President and Chief Human Resources Officer
Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Shah, Hemang – Vice President of Enterprise Portfolio Management
Sweeney, Mark – Chief Operating Officer
Wein, Olivia – Member of the Board

[1] Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Wibberly, Dr. Kathy – Member of the Board

Others present:

NAME	**COMPANY**
Anderson, Jarnice	USAC
Beaver, Tracey	USAC
Bethel, Tameca	USAC
Carpenter, Nikki-Blair	USAC
Delmar, Teleshia	USAC
Francisco, Dale	USAC
Hutchinson, Kyle	USAC
Jones, Frank	Solix, Inc.
Kaplan, Peter	Funds for Learning
King, Lauren	USAC
Lear, Kathleen	Maximus
Lee, Brandon	USAC
LeNard, Dave	E-Rate Elite Services
Litman, Travis	FCC
McCornac, Carolyn	USAC
Miller, Arielle	USAC
Mitchell Steven	USAC
Murray, Sheila	USAC
Nuzzo, Patsy	USAC
Rovetto, Ed	USAC
Sequin, Eric	Solix
Smith, Chris	USAC
Stankhaus, Paul	CSM
Turner, Reggie	Maximus

OPEN SESSION

a1. Consent Items. Dr. Domenech introduced this item to the Committee.

A. Committee meeting minutes of April 24, 2017, May 11, 2017, May 18, 2017, and June 26, 2017.

B. Approval for discussing in ***Executive Session*** agenda items:
   (1) **i2 –** Schools and Libraries Support Mechanism Business Update (Continued). USAC management recommends that discussion of this item be conducted in ***Executive Session*** because the item relates to USAC's ***procurement strategy and contract administration.***
   (2) **a3 –** Approval of Revised 2017 Annual Schools and Libraries Support Mechanism Programmatic Budget. USAC management

recommends that discussion of this item be conducted in ***Executive Session*** because the item relates to USAC's ***procurement strategy and contract administration*****.**

On a motion duly made and seconded, and after discussion, the Committee adopted the following resolution:

RESOLVED, that the USAC Schools & Libraries Committee hereby approves the Committee meeting minutes of April 24, 2017, May 11, 2017, May 18, 2017 and June 26, 2017 and discussion in ***Executive Session*** of the item noted above.

a2. Approval of Schools and Libraries Support Mechanism 4th Quarter 2017 Programmatic Budget and Demand Projection for the August 2, 2017 FCC Filing. Mr. Davis presented this item for consideration.

On a motion duly made and seconded, and after discussion, the Committee adopted the following resolutions:

RESOLVED, that the USAC Schools and Libraries Committee approves a 4th Quarter 2017 programmatic operating budget for the Schools and Libraries Support Mechanism of $16.65 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee approves a 4th Quarter 2017 programmatic capital budget for the Schools and Libraries Support Mechanism of $0.17 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee directs USAC staff to submit a collection requirement of $9.63 million for Schools and Libraries Support Mechanism administrative costs in the required August 2, 2017 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee, having reviewed at its meeting on July 24, 2017 a summary of the 4th Quarter 2017 Schools and Libraries Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required August 2, 2017 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the variance is equal to or less than $10 million, or may seek approval from the Schools and Libraries Committee Chair to make adjustments if the variance is greater than $10 million, but not more than $15 million.

i1. Information on 15 USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports. Mr. Smith, Senior Manager of Internal Audit, presented this item to the Committee for discussion.

i2. **Schools and Libraries Support Mechanism Business Update.** Mr. Davis presented this item for discussion. He provided a business update, including progress on Funding Year (FY) 2017 application processing, improvements made to invoice processing, and reduction of the FY2016 appeals backlog. As shared with the Committee, committed funding decisions for FY2017 are being made more quickly and more dollars are being obligated to schools and libraries as compared to FY2016. During the 2nd Quarter of 2017, the Schools and Libraries Division (SLD) processed $748.60 million, which is the largest quarterly dollar volume since program inception. Mr. Davis also shared that the appeals team processed more appeals in the 2nd Quarter of 2017 and received fewer incoming appeals during the 2nd Quarter, which resulted in a significantly reduced appeals backlog.

At 10:42 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into ***Executive Session*** for the purpose of discussing the confidential items listed above.

EXECUTIVE SESSION

i2. **Schools and Libraries Support Mechanism Business Update (Continued).** Mr. Davis presented this item for discussion, noting that USAC is executing on improving E-rate program administration. As part of this improvement effort, the Finance Division established a process to improve monitoring the E-rate Productivity Center (EPC) budget and forecast on a monthly basis. Details were shared with the Committee.

a3. **Approval of Revised 2017 Annual Schools and Libraries Support Mechanism Budget.** Mr. Davis presented this item for consideration.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolutions:

RESOLVED, that the USAC Schools and Libraries Committee approves a revised 2017 annual Schools and Libraries programmatic operating budget of $65.66 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee approved a revised 2017 annual Schools and Libraries programmatic capital budget of $8.24 million.

At 11:06 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of ***Executive Session*** and immediately reconvened in ***Open Session***, at which time Dr. Domenech reported that in ***Executive Session***, the Committee took action on item a3 and discussed item i2. On a motion duly made and seconded, the Committee adjourned at 11:07 a.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

SCHOOLS & LIBRARIES COMMITTEE MEETING
Tuesday, August 29, 2017

(DRAFT) MINUTES[1]

A meeting of the USAC Board of Directors (Board) Schools & Libraries Committee (Committee) was held at USAC's offices in Washington, D.C. on Tuesday, August 29, 2017. Dr. Dan Domenech, Committee Chair, called the meeting to order at 1:00 p.m. Eastern Time, with a quorum of six of the nine Committee members present:

Bocher, Bob – *by telephone*
Choroser, Beth – *by telephone*
Domenech, Dr. Dan – Chair – *by telephone*
Hernandez, Dr. Mike – *by telephone*
Mason, Ken – *by telephone*
Robinson, Vickie – Acting Chief Executive Officer, General Counsel and Assistant Secretary

Members of the Committee not present:

Buzacott, Alan
Fontana, Brent
Talbott, Dr. Brian

Other Board members and officers of the corporation present:

Davis, Craig – Vice President of Schools & Libraries
Kinser, Cynthia – Member of the Board
Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer
Sweeney, Mark – Chief Operating Officer

Others present:

NAME	**COMPANY**
Diephouse, Greg	USAC

[1] Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

NAME	COMPANY
Hutchinson, Kyle	USAC
King, Lauren	USAC
Lee, Brandon	USAC
Nuzzo, Patsy	USAC

OPEN SESSION

a1. Consideration of Additional Funding for the E-rate Productivity Center (EPC)-Related Incentive Technology Group, LLC (ITG) Post-Commitment Contract. Ms. Robinson recommended that discussion of this item be conducted in ***Executive Session*** because this matter relates to USAC's ***procurement strategy and contract administration.***

On a motion duly made and seconded and after discussion, the Committee adopted the following resolution:

RESOLVED, that the USAC Schools & Libraries Committee hereby approves the Committee discussing this item in ***Executive Session***.

At 1:00 p.m. Eastern Time, the Committee moved into ***Executive Session*** for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

a1. Consideration of Additional Funding for the E-rate Productivity Center (EPC)-Related Incentive Technology Group, LLC (ITG) Post-Commitment Contract. Mr. Davis presented this item to the Committee for consideration.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolution:

RESOLVED, that the USAC Schools and Libraries Committee, having reviewed the recommendation of USAC management, hereby authorizes USAC management to increase the Incentive Technology Group (ITG) post-commitment contract by a not-to-exceed amount of $346,600, plus applicable taxes, subject to requisite FCC approval, which will bring the total post-commitment contract value to $11,643,712, plus applicable taxes. The additional funds will support the review of requirements and the implementation of a redesigned COMAD notifications process for the E-rate Productivity Center (EPC).

At 1:15 p.m. Eastern Time, the Committee moved out of ***Executive Session*** and immediately reconvened in ***Open Session***, at which time Dr. Domenech reported that in

Executive Session, the Committee took action on item a1. On a motion duly made and seconded, the Committee adjourned at 1:15 p.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

Universal Service Administrative Company
Schools and Libraries Committee Meeting

ACTION ITEM

Approval of Schools and Libraries Support Mechanism 1st Quarter 2018 Programmatic Budget and Demand Projection for the November 2, 2017 FCC Filing

Action Requested

The USAC Board of Directors Schools and Libraries Committee (Committee) is requested to approve the 1st Quarter 2018 (1Q2018) programmatic budget and demand projection for the Schools and Libraries (SL) Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's November 2, 2017 quarterly filing.

Discussion

1Q2018 Operating Budget

The budget before the Committee includes the costs of administering the Schools and Libraries Support Mechanism and an allocation of USAC common costs. As set forth in FCC rules[1] and USAC's By-laws,[2] each programmatic committee has authority over its programmatic budget. The USAC Board of Directors has responsibility for the USAC common budget and for the overall consolidated budget.

The Committee is requested to approve $18.01 million in operating expense for Schools and Libraries Support Mechanism programmatic activities in 1Q2018, which includes:

- $1.95 million for compensation and benefits for 51 full time equivalents (FTEs) (including the dedicated information technology (IT) and data support teams).
- $9.82 million for the Schools and Libraries Program operations support contract with Solix.
- $5.21 million in professional fees, including:
  - $4.34 million for operations & maintenance (O&M) support.
  - $0.44 for call center support.
  - $0.38 for contract labor.
  - $0.05 million for consulting fees.
- $0.92 million for beneficiary compliance audits under the Beneficiary and Contributor Audit Program (BCAP).
- $0.11 million for travel, outreach activities, meeting planning services and miscellaneous expenses.

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[1] 47 C.F.R. § 54.705(c).
[2] By-Laws of Universal Service Administrative Company, Article II, § 8.

1Q2018 Capital Budget

The Committee is also requested to approve $0.21 million in 1Q2018 for capital expenditures related to new E-Rate Productivity Center (EPC) system development. Information on allocated capital expenditures, which are not attributable to a specific division, is provided under item aBOD04 102417.

Attachment A provides the details and compares the proposed 1Q2018 operating and capital budget to 1st Quarter 2017 actual expenditures. Attachment A also provides detail on allocated common costs which are not attributable to a specific division.

Attachment B provides a comparison of the budget to actual expenditures for the nine months ending September 30, 2017. Explanations are provided for significant variances.

Summary of Demand

On a quarterly basis, USAC is required to submit to the FCC projected demand for the upcoming quarter and estimates of unused funds from prior funding years (FYs).[3] This report provides information on the Schools and Libraries Support Mechanism for the period ending September 30, 2017, and seeks approval of funding requirements for 1Q2018.

On December 19, 2014, the FCC released the *Second E-Rate Modernization Report and Order*, adjusting the E-rate cap to provide certainty of sufficient available funding to achieve program goals.[4] The $2.410 billion annual cap was adjusted to $3.900 billion.[5] The new cap included the original $2.250 billion plus the previous inflation amount of $163.82 million. This change became effective starting in Funding Year 2015. On May 6, 2016, the FCC announced the funding cap for Funding Year 2016 as $3.939 billion. The Funding Year 2016 cap reflected a one percent inflation-adjusted increase in the $3.9 billion cap from Funding Year 2015. On March 13, 2017, the FCC announced the funding cap for Funding Year 2017 as $3.99 billion.[6] This reflects a 1.3 percent inflation-adjusted increase in the $3.939 billion cap from funding year 2016.[7]

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[3] 47 C.F.R. § 54.507(a).
[4] *See Modernizing the E-rate Program for Schools and Libraries et al.*, WC Docket No. 13-184 et al., Second Report and Order and Order on Reconsideration, 29 FCC Rcd 15538 (2014) (*Second E-Rate Modernization Report and Order*).
[5] *See id.*
[6] *See Wireline Competition Bureau Announces E-rate Inflation-Based Cap for Funding Year 2017*, CC Docket No. 02-6, Public Notice, 32 FCC Rcd. 1869 (2017).
[7] *See Wireline Competition Bureau Announces E-rate Inflation-based Cap for Funding Year 2016*, CC Docket No. 02-6, Public Notice, 31 FCC Rcd. 4446 (2016).

Base Demand

The filing window for Funding Year 2017 closed on May 11, 2017. At this time, we estimate demand for Funding Year 2017 will be $3,146.53 million.

Net Demand for Collections Purposes

Based on the estimated demand of $3,146.53 million, and sufficient funds available for carry forward that can be allocated to Funding Year 2017, the funding year collection requirement is $1,946.29 million. The 3Q2017 collection of $486.57 million and 4Q2017 collection of $486.57 million reduces the collection requirement to $973.15 million. The 1Q2018 portion of the collection requirement is $486.57 million and will be included as net demand in the 1Q2018 demand filing.

Prior Period Adjustments

Sixty days prior to the start of each quarter, USAC provides projected support mechanism demand and administrative expense data to the FCC. Thirty days prior to the start of the quarter, USAC submits projected universal service contributor revenue data to the FCC. The FCC uses these projections to establish the Universal Service Fund (USF) contribution factor for the upcoming quarter, and USAC uses the resulting contribution factor to invoice universal service contributors once the quarter begins.

Results for 3Q2017 contribute to an under-funded condition for which this filing proposes to adjust the 1Q2018 requirements. The total adjustment to the 1Q2018 fund requirement based on actual results will increase the funding needed by $38.04 million. The explanation for the adjustment is provided below:

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2017 billings were lower than projected	$34.89
Interest earned was higher than projected	($1.09)
Bad debt expense was lower than anticipated	($5.44)
2016 Annual Administrative Expense True-up	$9.68
Total Prior Period Adjustment	$38.04

The net demand of $486.57 million is adjusted as follows: increased by the prior period adjustments of $38.04 million, increased by $30.06 million for administrative expenses (including $11.84 million for USAC's common costs allocated to the Schools and Libraries Support Mechanism), and reduced by the projected interest income of $9.56 million; resulting in a total projected 1Q2018 funding requirement for the SL Support Mechanism of $533.27 million.

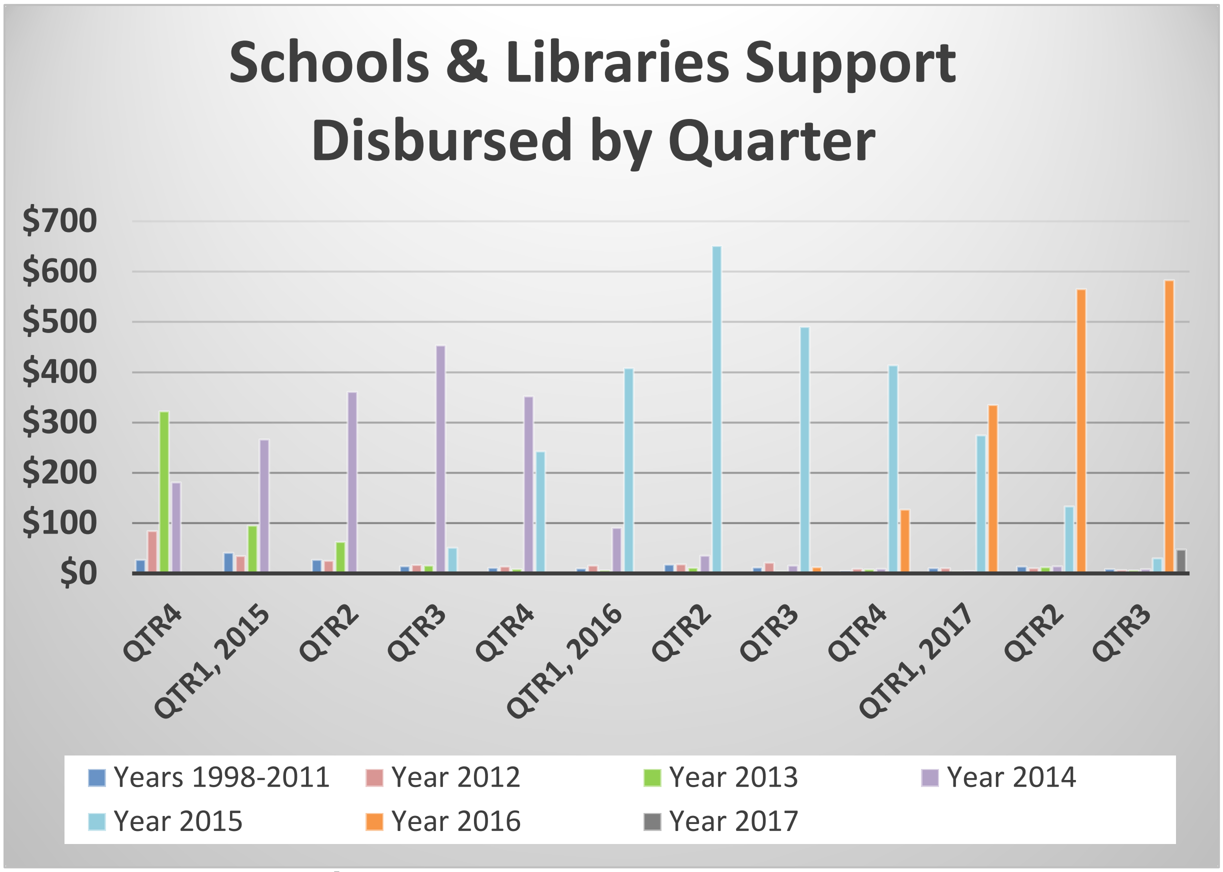
Schools and Libraries Support Mechanism
Fund Size Projections for 1st Quarter 2018

	(millions)
Schools and Libraries Support	$486.57
Prior Period Adjustment	$38.04
Administrative Expenses	$30.06
Interest Income	($9.56)
Total 1Q2018 Demand	$545.11

Quarter-Over-Quarter Projections

	1Q2018	4Q2017	3Q2017	2Q2017
Schools and Libraries Support	$486.57	$486.57	$486.57	$380.03
Prior Period Adjustment	$38.04	$5.77	($6.08)	($1.93)
Administrative Expenses	$30.06	$17.46	$27.72	$34.70
Interest Income	($9.56)	($10.33)	($10.12)	($10.56)
Total Demand	**$545.11**	**$499.47**	**$498.09**	**$402.24**

Schools and Libraries Support Mechanism Summary



Management Recommendation

USAC management recommends the Committee approve the budget and collection requirement as proposed.

<u>Recommended USAC Schools and Libraries Committee Action</u>

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC Schools and Libraries Committee approves a 1st Quarter 2018 programmatic operating budget for the Schools and Libraries Support Mechanism of $18.01 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee approves a 1st Quarter 2018 programmatic capital budget for the Schools and Libraries Support Mechanism of $0.21 million; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee directs USAC staff to submit a collection requirement of $18.22 million for Schools and Libraries Support Mechanism administrative costs in the required November 2, 2017 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC Schools and Libraries Committee, having reviewed at its meeting on October 23, 2017 a summary of the 1st Quarter 2018 Schools and Libraries Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required November 2, 2017 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the variance is equal to or less than $10 million, or may seek approval from the Schools and Libraries Committee Chair to make adjustments if the variance is greater than $10 million, but not more than $15 million.

Schools and Libraries Program
1Q2018 Budget
(in thousands)

Expense Category	1Q2018 Budget	1Q2017 Actual	Increase/ (Decrease)	1Q2018 Explanations
Compensation & Benefits	$ 1,945.90	$ 1,683.53	$ 262.37	51 FTEs (39 SL, 10 IT, 2 data FTEs) in 2018, compared to average 41 (27 SL FTEs & 14 IT FTEs) in 2017
Solix Costs	9,815.00	9,375.00	440.00	Increased cost due to transition to new call center vendor
External BCAP Costs	922.79	568.60	354.19	Increase in co-sourced audits
Professional Fees	5,209.77	1,856.95	3,352.82	Increase due to EPC Operations & Maintenance ($3.31M) and call center support ($0.44M), offset by a decrease consulting fees ($0.45M)
Travel, Meetings and Conferences	100.43	44.02	56.42	Increase due to timing of applicant and service provider trainings, staff participation in professional meetings and conferences, and travel associated with outreach activities
Telephone & Computer Support	-	431.08	(431.08)	Expenses for computer support included in common costs
Other Expenses	18.28	7.30	10.97	Personnel expenses and training materials for outreach activities
Total Programmatic Operating Costs	**$ 18,012.17**	**$ 13,966.48**	**$ 4,045.69**	
Direct Capital Costs	**$ 210.50**	**$ 4,027.50**	**$ (3,817.00)**	Decrease due to less development for the EPC system
Total Direct Costs - Schools & Libraries Program	**$ 18,222.7**	**$ 17,994.0**	**$ 228.7**	

Common Operating Costs Assigned to Schools & Libraries Program	$ 10,754.31	$ 11,118.87	$ (364.56)	Allocation of indirect operating costs based on the CAM
Common Capital Costs Assigned to Schools & Libraries Program	1,082.54	481.53	601.01	Allocation of indirect common capital budget based on the CAM
Total Common Costs Assigned to Schools & Libraries Program	**$ 11,836.85**	**$ 11,600.39**	**$ 236.45**	

Total Schools & Libraries Program with Allocations	**$ 30,059.51**	**$ 29,594.37**	**$ 465.14**	

Schools and Libraries Program

For the Nine Months Ending September 30, 2017

(in thousands)

Direct Operating Expenses	Actual	Budget	Variance	%	Explanation of Variance
Compensation & Benefits	$ 5,015.39	$ 5,876.00	$ 860.6	15%	Actuals reflect average 47 FTEs vs forecasted 53 FTEs
Solix Costs	28,125.00	28,333.34	208.33	1%	
External BCAP Costs	2,064.32	2,625.03	560.71	21%	Lower spending on outsourced and cosourced audits
Professional Fees & Contract Labor	8,353.48	10,385.82	2,032.34	20%	Lower spending on EPC O&M ($2.1M) due to shift in resources to Post Commitment development
Telephone & Computer Support	1,527.13	1,375.61	(151.52)	-11%	Higher spending on Appian cloud services
Travel, Meetings and Conferences	244.10	362.92	118.82	33%	Lower spending on user experience trainings and internal audit travel
Other Expenses	18.36	53.05	34.69	65%	Lower spending on printing and training
Total Direct Operating Expenses	**$ 45,347.78**	**$ 49,011.77**	**$ 3,664.0**	**7%**	
Indirect Expense / Allocations					
USAC Administration	$ 30,214.18	$ 31,697.94	1,483.8	5%	
Total Expense	**$ 75,561.96**	**$ 80,709.70**	**5,147.7**	**6%**	

Universal Service Administrative Company
Schools & Libraries Committee Meeting

ACTION ITEM

Consideration of Funding Year 2018 Filing Window Dates

Action Requested

The Schools & Libraries Committee (Committee) is requested to authorize USAC to open the Funding Year (FY) 2018 application filing window no earlier than January 2, 2018, and to close the window on or after March 20, 2018.

Discussion

A Funding Year 2018 filing window opening in early January 2018 and closing in late March 2018 will provide a reasonable time period for applicants to submit their FCC Form 471 funding applications. The window has typically opened in early January and closed in mid to late March.

Section 54.502 of the Commission's rules mandates that the filing window cannot open until sixty (60) days after the release of the Eligible Services List (ESL) by the Federal Communications Commission (FCC).[1] The Funding Year 2018 ESL was released on October 5, 2017.[2]

In earlier years, the filing window opened on a Monday, but in recent years, a mid-week opening has been set so that if last-minute system issues arise, full staffing is available to resolve the issues prior to the filing window opening. For the same reasons, USAC staff believes it is prudent to set a mid-week opening for the upcoming funding year.

USAC management recommends the Committee approve the requests discussed in this briefing paper, subject to the requirements of Section 54.502 of the Commission's rules.

Recommended Schools & Libraries Committee Action

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC Schools & Libraries Committee accepts the recommendation of USAC management to open the Funding Year 2018 filing window no earlier than January 2, 2018 and to close the Funding Year 2018 filing

[1] 47 C.F.R. § 54.502(d).

[2] *See Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Order, 2017 WL 4479981 (2017) (*2018 Eligible Services List*).

window on or after March 20, 2018, subject to the requirements of Section 54.502 of the Commission's rules; and

RESOLVED FURTHER, that upon consultation with the Committee Chair, USAC management is authorized to adjust the opening and closing dates, as circumstances may warrant.

Universal Service Administrative Company
Schools & Libraries Committee Meeting

INFORMATION ITEM – *Executive Session Option*

Information on Nine USAC Internal Audit Division
Schools and Libraries Support Mechanism Beneficiary Audit Reports

Information Presented

This information item provides a summary of the results for nine Schools and Libraries Support Mechanism Beneficiary Audit Reports listed in **Exhibit I** to this briefing paper.

Discussion

A general discussion of the findings contained in the draft audit reports is appropriately held in open session. To the extent that Schools & Libraries Committee (Committee) members wish to discuss specific details of the audit findings, USAC staff recommends that, in accordance with the approved criteria and procedures for conducting USAC Board of Directors (Board) and committee business in ***Executive Session*,** this matter should be considered in ***Executive Session*** because discussion of specific audit plans, targets and/or techniques would constitute a ***discussion of internal rules and procedures***.

Audits were performed on nine Schools and Libraries Support Mechanism beneficiaries. The purpose of the audits was to determine whether the beneficiaries complied with Federal Communications Commission (FCC) rules and program requirements. **Exhibit I** to this briefing paper highlights the results of the audits. The audit reports where the entity disagreed with one or more audit findings can be found in **Attachments A - D.**

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Compton Unified School District, California	3	• No Material Findings.	$951,570	$0	$0	N
Oakland Unified School District, California **(Attachment A)**	4	• **Service Provider Over-Invoiced the Schools and Libraries Program (SLP) for Services Delivered Under a Different Funding Request Number (FRN).** The Service Provider invoiced USAC for 14 termination lines under the incorrect FRN due to the Beneficiary misidentifying the FRN on its Form 471.	$1,287,728	$9,793	$9,793	Y
Dallas County Schools, Texas	1	• **Missing Equipment and Proper Locations Not Listed on FCC Form 471.** The Beneficiary was unable to locate two E-rate assets during IAD's site visit and had installed two additional E-rate assets at locations not listed on the FCC Form 471.	$435,217	$2,862	$0*	N
Livingston Parish	0	• No Findings.	$485,463	$0	$0	N/A

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect of Findings	USAC Management Recovery Action	Entity Disagreement
Public School, Louisiana						
Downey Unified School District, California **(Attachment B)**	1	• **Beneficiary Misstated Its Request for Category Two Funding.** The Beneficiary did not accurately identify eligible costs for each school on its FCC Form 471 funding request for internal connections.	$292,421	$488,107	$0*	Y
Cleveland City School District, Ohio **(Attachment C)**	5	• **Beneficiary Over-Invoiced SLP for Services Delivered to Locations Not Requested in Its FCC Form 471.** Entities were listed on Service Provider invoices and FCC Form 474 submissions that were not included on the FCC Form 471 Item 21 attachment related to FRN 2861464 for Managed Internal Broadband Services (MIBS). • **Untimely Payments to Service Provider.** The Beneficiary did not pay the full Beneficiary portion of the sampled Service Provider bills related to FRNs	$2,096,262	$133,996	$15,179	Y

Entity Name, State	**Number of Findings**	**Material Findings**	**Amount of Support**	**Monetary Effect of Findings**	**USAC Management Recovery Action**	**Entity Disagreement**
		2834224 and 2834235 for Voice Services.				
Homewood-Flossmoor School District 233, Illinois	2	• No Material Findings.	$15,025	$850	$850	N
Wharton Independent School District, Texas **(Attachment D)**	1	• **Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process.** The Beneficiary gave the winning Service Provider an opportunity to modify their bid but did not provide the same opportunity to other vendors. Additionally, the Beneficiary did not retain sufficient documentation to demonstrate that a fair and open competitive bid process was conducted.	$199,463	$231,856	$199,463*	Y
Delhi Charter School, Louisiana	0	• No Findings.	$34,870	$0	$0	N/A
Total	**17**		**$5,798,019**	**$864,602**	**$225,285**	

* The difference between the Monetary Effect and the USAC Management Recovery Action resulted in a commitment adjustment to the related FRN.

Attachment A

SL2016BE023

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

OAKLAND UNIFIED SCHOOL DISTRICT

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

USAC AUDIT NO. SL2016BE023

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
OAKLAND UNIFIED SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

May 18, 2017

Mr. Wayne Scott, Vice President – Internal Audit Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Mr. Scott:

Cotton & Company LLP (referred to as "we") audited the compliance of Oakland Unified School District (Beneficiary), Billed Entity Number (BEN) 144227, using regulations and orders governing the federal Universal Service Schools and Libraries Program (SLP), set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

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

Based on the test work performed, our examination disclosed four detailed audit findings and no other matters, discussed in the Audit Results and Commitment Adjustment/Recovery Action section below. For the purpose of this report, a "detailed audit finding" is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a violation of the 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 Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and accepted responsibility for ensuring that those procedures are sufficient for their purposes. This report is not confidential and may be released to a third party upon request.

Audit Results and Commitment Adjustment/Recovery Action

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

Audit Results	Monetary Effect	USAC Recovery Action	Recommended Commitment Adjustment
Finding No. 1, 47 C.F.R. § 54.502(b)(2) (2015) – Beneficiary Inaccurately Calculated Category 2 Budgets. The Beneficiary inaccurately completed its FY 2015 Form 471 application, which impacted its Category 2 budget calculations.	$0	$0	$0
Finding No. 2, 47 C.F.R. § 54.505(b)(1) (2015) – Incorrect Calculation of the Discount Rate and Inaccurate Methodology in Usage of Federally-Approved Mechanism. The Beneficiary applied an inaccurate methodology to calculate its discount rate for the district by inconsistently applying the NSLP and CEP methods for 9 combined schools.	$0	$0	$0
Finding No. 3, 47 C.F.R. § 54.505(b)(1) (2015) – Inadequate Discount Calculation Process – Did Not Include the Proper Schools in Calculating the Beneficiary's Discount Rate. The Beneficiary did not have sufficient processes for and therefore it did not	$0	$0	$0

Audit Results	Monetary Effect	USAC Recovery Action	Recommended Commitment Adjustment
include eight entities when calculating its discount rate.			
Finding No. 4, Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice Form (FCC Form 474), III. Specific Instructions – Service Provider Over-Invoiced SLP for Services Delivered Under Different FRN. The Service Provider invoiced USAC for 14 termination lines under the incorrect FRN due to the Beneficiary misidentifying the FRN on its Form 471.	$9,793	$9,793	$0
Total Net Monetary Effect	**$9,793**	**$9,793**	**$0**

USAC Management Response

USAC management concurs with the Audit Results stated above. For Finding 4, USAC will work with the Service Provider to correct the invoicing error and, if required, determine the recovery amount consistent with SL Program Rules. USAC will also request the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified.

USAC directs the Beneficiary to USAC's website under "Reference Area" for guidance on Category 2 Budgets and Discount Calculations. USAC also directs the Service Provider to USAC's website under "Reference Area" for guidance on Invoicing. The website is available at (http://www.usac.org/sl/tools/reference-area.aspx). Going forward the Beneficiary and Service Provider should work together to ensure that USAC is invoiced correctly.

Further, USAC recommends the Beneficiary and Service Provider subscribe to USAC's weekly News Brief which provides program participants with valuable information. Enrollment can be made through USAC's website under "Trainings and Outreach" available at (http://www.usac.org/sl/tools/news-briefs/Default.aspx).

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2015. The Beneficiary is a school district located in Oakland, California that serves more than 49,000 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of August 1, 2016, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	$1,895,801	$0
Basic Maintenance of Internal Connections	$39,978	$0
Managed Internal Broadband Services	$0	$0
Internet Access	$321,874	$87,806
Telecommunications	$2,481,584	$864,050
Voice	$1,083,574	$335,872
Total	**$5,822,811**	**$1,287,728**

The "amount committed" total represents 3 FCC Form 471 (*Description of Services Ordered and Certification)* applications submitted by the Beneficiary for Funding Year 2015 that resulted in 14 Funding Request Numbers (FRNs). We selected a sample of five FRNs, which represents $3,891,000 of the funds committed and $1,044,519 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

A. Application Process

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

B. Competitive Bid Process

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

C. Invoicing Process

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

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

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

Detailed Audit Findings

<u>Finding No. 1, 47 C.F.R. § 54.502(b)(2) – Beneficiary Inaccurately Calculated Category 2 Budgets</u>

Condition
The Beneficiary inaccurately completed its FY 2015 FCC Form 471 Application No. 1045786 for FRN 2855230, which impacted its Category 2 (C2) budget calculations. Specifically, the form included enrollment errors for three of the district's schools. Due to these clerical errors, the Beneficiary's five-year C2 budgets for each school were also misstated as shown in the table below.

School *	Form 471 Enrollment	Corrected Enrollment	Beneficiary Calculated Budget	Correct Calculated Budget	2015 Committed Budget	Difference Between Correct Budget and Committed Budget	Commitment Adjustment Recommendation (Commitment Amounts Now Ineligible)
Carl Munck ES	285	251	$47,850	$42,750	$35,368	$7,382	N/A
Community Day MS	10	0	$9,200	$0	$0	$0	N/A

School *	Form 471 Enrollment	Corrected Enrollment	Beneficiary Calculated Budget	Correct Calculated Budget	2015 Committed Budget	Difference Between Correct Budget and Committed Budget	Commitment Adjustment Recommendation (Commitment Amounts Now Ineligible)
Hintil Kuu Ca CDC	0	34	$0	$9,200	$0	$9,200	N/A

*The draft report also identified an issue with La Escuelita Elementary School which was subsequently resolved. See the Auditor Response below.

The Beneficiary overstated Carl Munck Elementary School's (ES) student enrollment by 34 students, resulting in an incorrectly calculated budget. Since the Beneficiary did not request all of its C2 Funding in Funding Year 2015, no commitment adjustment is necessary.

Community Day Middle School's (MS) budget should have been zero, as this school was closed in 2015, and therefore should not have been listed on the FCC Form 471. At Hintil Kuu Ca Childhood Development Center (CDC), the budget should have been $9,200 as the school had 34 eligible students. In both of these cases, the Beneficiary did not request funding, and therefore commitment adjustments are not required.

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the completion of FCC Form 471. In addition, the Beneficiary did not have adequate processes in place to ensure the accuracy of its FCC Form 471 submission.

Effect

No disbursements related to C2 funding have been made. Additionally, there is no monetary effect, recommended recovery, or commitment adjustments for this finding. However, budget errors may lead to future exceptions including overspending if the Beneficiary does not implement stronger controls and submit correct figures for budget calculations.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Internal Connections (FRN 2855230)	$0	$0	$0
Basic Maintenance of Internal Connections (FRN 2868313)	$0	$0	$0

Recommendation
We recommend that the Beneficiary implement stronger controls to prevent future inaccuracies in its FCC Form 471 submissions.

Beneficiary Response

The District disagrees with audit finding number 1. In particular, La Escuelita School's (ES) enrollment was in fact 343 students as reflected in the Calpads, and California Department of Education (CDE) information provided to Cotton CPA. The MetWest enrollment of 161 students was not double-counted as reflected on the Calpads and CDE data provided. Unfortunately, the NSLP claim form for MetWest for October 2014 is not available, but the District has provided alternative data to support enrollment at MetWest that flows directly from Aeries, our student information system, and is the authoritative data source within the district.

La Escuelita Elementary School and MetWest High School are housed on one contiguous District parcel, but are distinctly separate schools with separate student populations and individual site administration. The address for La Escuelita Elementary is 1050 2nd Ave.; the address for Met West High is 1100 3rd. Ave. In the audit, the District erroneously provided Cotton CPA the NSLP Claim Form for La Escuelita Elementary School as verification of the student population mentioned in this finding. The finding states that the MetWest students are duplicated in the La Escuelita count, but as explained above that is incorrect and the district should not be held liable for returning money to the Erate program that was legitimately applied for.

Auditor Response
Based upon the Beneficiary's response to the audit report, we were able to resolve the finding for La Escuelita, by reviewing newly provided and available documentation. The additional testing performed showed that the MetWest and LaEscuelita student enrollments were not combined and references to those schools have been removed from the finding.

However, the miscalculations in student enrollments at Carl Munck ES, Community Day MS, and Hintil Kuu Ca CDC related to preparation of the FCC Form 471 and incorrect budget calculations, as discussed in the finding, remain as administrative errors.

Finding No. 2, 47 C.F.R. § 54.505(b)(1) (2015) – Incorrect Calculation of the Discount Rate and Inaccurate Methodology in Usage of Federally-Approved Mechanisms

Condition
The Beneficiary applied an inaccurate methodology when using federally-approved mechanisms to calculate its discount rate for the district. The Beneficiary combined the enrollment for nine of its schools on its FCC Form 471 Application Nos. 1012059 and 1045786 because the schools were located on the same premises (e.g., an elementary school and a CDC). The combined schools used either the National Student Lunch Program (NSLP) or the NSLP Community

Eligibility Provision (CEP) methods of calculating their discount rate. While both of these calculation methods are valid and acceptable, for combined schools it must be applied consistently, taking into consideration each school's approved method..

The NSLP discount calculation method is based on the annual percentage of the school's total enrollment that receives free and reduced-price lunches. Beneficiaries may use the NSLP CEP discount calculation method when at least 40 percent of their students are "directly certified" for free meals through means other than household applications. The calculation for determining the number of students eligible involves multiplying the school's total enrollment by the percentage of directly certified students and then by the CEP national multiplier, which is currently 1.6.

The following table provides details regarding the schools and their calculation methods.

School	Enrollment	Method	Issue
Futures Elementary	329	CEP	The Beneficiary's FCC Form 471 Application Nos. 1012059 and 1045786 combined this entity's enrollment with those of entities using the NSLP method.
Lockwood School	45	NSLP	The Beneficiary's FCC Form 471 Application No. 1012059 combined this entity's enrollment with that of an entity using the CEP method.
Community United Elementary	415	NSLP	The Beneficiary's FCC Form 471 Application Nos. 1012059 and 1045786 combined this entity's enrollment with that of an entity using the CEP method.
MLK Elementary	327	CEP	The Beneficiary's FCC Form 471 Application Nos. 1012059 and 1045786 combined this entity's enrollment with that of an entity using the NSLP method.
MLK (CDC)	45	NSLP	The Beneficiary's FCC Form 471 Application Nos. 1012059 and 1045786 combined this entity's enrollment with that of an entity using the CEP method.
Preparatory Literary Academy of Cultural Excellence	228	CEP	The Beneficiary's Form 471 No. 1045786 combined this entity's enrollment with those of entities using the NSLP method.

School	Enrollment	Method	Issue
Prescott CDC	23	NSLP	The Beneficiary's FCC Form 471 Application No. 1045786 combined this entity's enrollment with those of entities using the CEP method.
International Community School	648	CEP	The Beneficiary's FCC Form 471 Application No. 1045786 combined this entity's enrollment with those of entities using the NSLP method.
International Community CDC	96	NSLP	The Beneficiary's FCC Form 471 Application Nos. 1012059 and 1045786 combined this entity's enrollment with that of an entity using the CEP method.

Because the NSLP and CEP methods are calculated differently, beneficiaries should not combine the enrollments of schools that use different methods when submitting the FCC Form 471 through the online portal as it will automatically apply only one calculation method to all entities included on the form.

Cause

The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the use of approved discount calculation mechanisms in calculating its discount percentage.

Effect

We recalculated the Beneficiary's discount rates and determined that, while the Beneficiary combined the enrollment of nine schools using an incorrect methodology that is not in compliance with 47 C.F.R. § 54.505(b)(1), it did not impact the Beneficiary's discount rate for services requested during Funding Years 2015 through 2016. We determined that the eligibility percentage only changed by a 0.16 percent increase for Category 1 services (from 69.65 percent to 69.81 percent) and a 0.23 percent decrease for Category 2 services (from 70.04 percent to 69.81 percent). Based on the USAC discount eligibility table, beneficiaries with eligibility percentages ranging from 50 to 74 percent qualify for the 80 percent discount percentage. The district therefore still qualifies for the 80 percent discount rate based on the recalculations discussed above. However, using an incorrect methodology could impact the Beneficiary's discount rate and funding request(s) in future funding years.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Voice Services, Telecom, Internet Access, Internal Connections (all sampled FRNs)	$0	$0	$0

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

Beneficiary Response

This issue has been resolved going forward. All OUSD entities (even when sharing physical sites) will be reported separately on E-Rate Forms 471.

Finding No. 3, 47 C.F.R. § 54.505(b)(1) – Inadequate Discount Calculation Process – Did Not Include the Proper Schools in Calculating the Beneficiary's Discount Rate

Condition
The Beneficiary's discount rate calculation did not include all of its entities, as supported by the Beneficiary's own documentation and the California State Department of Education. Specifically, the Beneficiary's FCC Form 471 Application Nos. 1012059 and 1045786 should have included student enrollment and eligibility data for an additional eight schools, as listed in the table below:

Schools Not Included on Form 471	
School Data	**Enrollment**
Form 471 Application No. 1012059	
International Community CDC	96
Allendale Elementary School	395
Brookfield CDC	38
Burbank CDC	19
Lockwood School Preschool	45
Stonehurst CDC	88
Community School for Creative Education	179
Form 471 Application No. 1045786	
Hintil Kuu Ca	34
Total Enrollment Not Included on Form 471	**894**

Cause
The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the requirement to include all entities district-wide in calculating the discount rate.

Effect
We recalculated the Beneficiary's discount rates and determined that, while the Beneficiary did not include the eight schools, adding the enrollment and eligibility data for these schools to the discount calculation did not impact the Beneficiary's discount rate for Funding Year 2015. We calculated the effect combining the impact of the previous finding, and determined that the eligibility percentage only changed by a 0.16 percent increase for Category 1 services (from 69.65 percent to 69.81 percent) and a 0.23 percent decrease for Category 2 services (from 70.04

percent to 69.81 percent). Based on the USAC discount eligibility table, beneficiaries with eligibility percentages ranging from 50 to 74 percent qualify for the 80 percent discount percentage. The district therefore still qualifies for the 80 percent discount rate based on the recalculations discussed above. However, using an incorrect methodology could impact the Beneficiary's discount rate and funding request(s) in future funding years.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Voice Services, Telecom, Internet Access, Internal Connections (all sampled FRNs)	$0	$0	$0

Recommendation

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

Beneficiary Response

The online system used to input the Form 471 data for FY2015 erased the data that was input on two separate occasions. When the consultant input the data a third time, for the Category Two services, he only input the sites that were receiving Category Two services for that year, and not all sites. This was a time constraint issue and nothing more.

For Category One services, on the Form 471, sites for which the District submitted a combined Free-Reduced report, the Form 471 reflected one entity name and the combined student data. Now that we are aware of the need to separate out the entities using a shared site, we will separate out that data for all Form 471 submissions going forward.

Finding No. 4, Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice Form (FCC Form 474), III. Specific Instructions – Service Provider Over-Invoiced SLP for Services Delivered Under Different FRN

Condition

The Pacific Bell Telephone Company (Service Provider) invoiced USAC for 14 termination line circuits under FRN 2834627. These charges were associated with eight billing accounts. Although the lines are eligible for E-rate funding, the Beneficiary did not request them under this FRN; instead, it requested them under FRN 2834828, which was included in our sample, and FRN 2834695, which was not within the sample we selected, yet was in scope for our audit. The Beneficiary's consultant confirmed in written correspondence dated October 19, 2016, that the Beneficiary had erroneously charged the billing account numbers under FRN 2834627.

To determine the overall monetary effect of the discrepancies, we totaled the amount that the Beneficiary invoiced to USAC under the eight billing accounts throughout Funding Year 2015. The total undiscounted amount includes taxes and surcharges.

AT&T Account #	Number of Circuits	Total Undiscounted Charges Invoiced to USAC in FY 2015	Total Discounted Amount Invoiced to USAC in FY 2015
2343426159970	2	$1,602	$1,282
2343442560688	1	$801	$641
2343443307411	1	$801	$641
2343446120209	2	$1,602	$1,282
2343448080980	2	$1,602	$1,282
4369511081417	4	$3,854	$3,083
4369512111052*	1	$1,177	$941
4369516373444	1	$801	$641
Total	**14**	**$12,240**	**$9,793**

*The undiscounted amount for this billing account includes a variable mileage fee associated with the circuit.

Cause
The Beneficiary did not verify that it had properly classified the requested services and related billing accounts under the proper FRN.

Effect
Due to the Beneficiary's lack of FRN verification procedures, the Service Provider incorrectly invoiced FRN 2834627 for $9,793 in discounted T-1 line circuit termination services.

Support Type	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Telecom (FRN 2834627)	$9,793	$9,793	$0

Recommendation
We recommend that:

1. USAC management recover the $9,793 that it over-reimbursed for FRN 2834627.
2. The Service Provider correctly invoice the amount identified in the Effect section above under the proper FRNs.
3. The Beneficiary enact stronger internal controls related to the invoice process, and the Service Provider properly invoice USAC for the billed services under the appropriate FRNs.

Beneficiary Response

FRN 2834627 was for data services, FRN 2834828 was for voice services. The T-1s should have been included under the voices services FRN, as they support PRI lines so therefore are considered voice services as well. When issuing the grid to AT&T, which tells AT&T which FRN applies to which AT&T bill, the referenced T-1s were submitted with all other T-1s as a part of the data FRN. Once the consultant realized the mistake, he submitted a corrected grid, but the discounts had already been incorrectly applied by AT&T as a result of the original grid that was submitted. These T-1s received an 80% E-Rate discount instead of a 60% discount (the reduction in discounts for voice services started this fiscal year). This was an administrative error and not a compliance issue.

Criteria

Finding	Criteria	Description
1	47 C.F.R. § 54.502(b)(1)-(2) (2015).	*Five-Year Budget* *Each eligible school or library shall be eligible for a budgeted amount of support for category two services over a five-year funding cycle beginning the first funding year support is received.* *School Budget* *Each eligible school shall be eligible for support for category two services up to a pre-discount price of $150 per student over a five-year funding cycle. Applicants shall provide the student count per school, calculated at the time that the discount is calculated each funding year.*
1	*E-rate Modernization Order*, at para. 91.[1]	*We set a pre-discount budget of $150 per student over five years for Schools. The record demonstrates that $2,500 per classroom, which is equal to just under $150 per student based on a ratio of 17 students per classroom, should be a sufficient budget to deploy LANs/WLANs to elementary and secondary school classrooms and common areas across the nation.*
2	47 C.F.R. § 54.505(b)(1) (2015).	*For schools and school districts, the level of poverty shall be based on the percentage of the student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism.*
3	47 C.F.R. § 54.505(b)(1) (2015).	*For schools and school districts, the level of poverty shall be based on the percentage of the student enrollment that is eligible for a free or reduced price lunch under the national or a federally-approved alternative mechanism. School districts shall divide the total number of students eligible for the National School Lunch Program within the school district by the total number of students within the school district to arrive at a percentage of*

[1] *Modernizing the E-Rate Program for Schools and Libraries*, WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd. 8870, 8904 at para. 91 (2014) (*E-rate Modernization Order*).

Finding	Criteria	Description
		students eligible. This percentage rate shall then be applied to the discount matrix to set a discount rate for the supported services purchased by all schools within the school district. Independent charter schools, private schools, and other eligible educational facilities should calculate a single discount percentage rate based on the total number of students under the control of the central administrative agency.
3	*E-rate Modernization Order*, at para. 209 (2014).	*[W]e [FCC] require school districts to calculate and use district-wide discount rates for each application, thus eliminating the need to calculate different discount rates depending on which schools in a district are receiving services.*
3	*E-rate Modernization Order*, at para. 220 (2014).	*An applicant should determine its discount using all E-rate eligible students in schools that fall under the control of a central educational agency.*
4	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice Form (FCC Form 474), OMB 3060-0856 (July 2013).	*Block 2: The information requested should be completed for the eligible services in each FRN for…delivered services consistent with the FCDL and for which the service provider has billed the applicant.* *Column (7) - Funding Request Number (FRN). This number is assigned by USAC to each Block 5 of the FCC Form 471 application containing a request for funding of discounts for a service or group of services. Each FRN is set forth on the FCDL.* *Block 3: Service Provider Certifications and Signature:* *A person authorized to sign this form must be responsible for the service provider's preparation and submission of invoice forms to seek reimbursement from the schools and libraries universal service support mechanism. This person must be able to certify to the accuracy of the invoice forms and their compliance with FCC rules.*

COTTON & COMPANY LLP

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

Attachment B

SL2016BE035

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

PERFORMANCE AUDIT

DOWNEY UNIFIED SCHOOL DISTRICT

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

USAC AUDIT NO. SL2016BE035

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
DOWNEY UNIFIED SCHOOL DISTRICT
COMPLIANCE WITH THE FEDERAL UNIVERSAL SERVICE FUND
SCHOOLS AND LIBRARIES SUPPORT MECHANISM RULES

Executive Summary

May 18, 2017

Mr. Wayne Scott, Vice President – Internal Audit Division
Universal Service Administrative Company
700 12th Street, N.W., Suite 900
Washington, DC 20005

Dear Mr. Scott:

Cotton & Company LLP (referred to as "we") audited the compliance of Downey Unified School District (Beneficiary), Billed Entity Number (BEN) 143471, using regulations and orders governing the federal Universal Service Schools and Libraries Program (SLP), set forth in 47 C.F.R. Part 54, as well as other program requirements (collectively, the Rules). Compliance with the Rules is the responsibility of Beneficiary management. Our responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on the audit.

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

Based on the test work performed, our examination disclosed one detailed audit finding and no other matters, discussed in the Audit Results and Commitment Adjustment/Recovery Action section below. For the purpose of this report, a "detailed audit finding" is a condition that shows evidence of non-compliance with Rules that were in effect during the audit period. An "other matter" is a condition that does not necessarily constitute a violation of the 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 Federal Communications Commission (FCC) and should not be used by those who have not agreed to the procedures and accepted responsibility for ensuring that those procedures are sufficient for their purposes. This report is not confidential and may be released to a third party upon request.

Audit Results and Commitment Adjustment/Recovery Action

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

Audit Results	Monetary Effect	USAC Recovery Action	Recommended Commitment Reduction
Finding No. 1, FCC Form 471 Instructions - Beneficiary Misstated Its Request for Category Two Funding. The Beneficiary did not accurately identify eligible costs for each school on its Form 471 funding request for internal connections.	$488,107	$0	$488,107

USAC Management Response

USAC management concurs with the Audit Results stated above. See the chart below for FRN recovery amount. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issue identified.

USAC directs the Beneficiary to USAC's website under "Reference Area" for guidance on Category Two Budgets and FCC Form 471 Filing available at (http://www.usac.org/sl/service-providers/step05/default.aspx).

Further, USAC recommends the Beneficiary and service provider subscribe to USAC's weekly News Brief which provides program participants with valuable information. Enrollment can be made through USAC's website under "Trainings and Outreach" available at (http://www.usac.org/sl/tools/news-briefs/Default.aspx).

FRN	Recovery Amount
2738035	$488,107

Purpose, Background, Scope, and Procedures

The purpose of the audit was to determine whether the Beneficiary complied with the Rules for Funding Year 2015. The Beneficiary is a school district located in Downey, California that serves more than 23,000 students.

The following chart summarizes the SLP support amounts committed and disbursed to the Beneficiary as of August 22, 2016, the date that our audit commenced.

Service Type	Amount Committed	Amount Disbursed
Internal Connections	$2,485,781	$0
Basic Maintenance of Internal Connections	$9,546	$0
Internet Access	$89,568	$89,568
Telecommunications	$214,288	$202,853
Voice	$133,038	$0
Total	**$2,932,221**	**$292,421**

The "amount committed" total represents two FCC Form 471 *Description of Services Ordered and Certification* applications submitted by the Beneficiary for Funding Year 2015 that resulted in seven Funding Request Numbers (FRNs). We selected a sample of four of the FRNs, which represent $2,896,909 of the funds committed and $292,421 of the funds disbursed during the audit period. Using this sample, we performed the audit procedures enumerated below.

A. Application Process
We obtained an understanding of the Beneficiary's processes relating to the SLP. Specifically, to determine if the Beneficiary used its funding in accordance with the Rules, we examined documentation to verify whether the Beneficiary used its funding effectively and whether it had adequate controls in place. We performed inquiries, direct observation, and inspection of documentation to determine whether the Beneficiary was eligible to receive funds and had the necessary resources to support the equipment and services for which it requested funding. We also conducted inquiries to obtain an understanding of the process the Beneficiary used to calculate its USAC Category 1 and Category 2 discount percentage and validated the accuracy of the discount percentage.

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

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

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

D. Site Visit
We performed a physical inventory to evaluate the location and use of equipment and services to determine whether they were properly delivered and installed, located in eligible facilities, and used in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the equipment and services for which it had requested funding and evaluated the equipment and services purchased to determine whether the Beneficiary was using its funding in an effective manner.

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

Detailed Audit Finding

Finding No. 1, FCC Form 471 Instructions – Beneficiary Misstated Its Request for Category Two Funding

Condition
The Beneficiary did not accurately identify eligible costs for each school on its FCC Form 471 funding request for internal connections. The Beneficiary requested and received a total of $3,119,158 in pre-discount Category Two support for 20 schools: $3,107,226 under FRN 2738035 for the installation of internal connections, and the remaining $11,932 under FRN 2849457 for basic maintenance for these connections. In making its request, however, the Beneficiary allocated the total installation and maintenance costs to individual schools based on enrollment rather than on the service provider's bid for installing and maintaining equipment at each school. The Category 2 equipment for which the Beneficiary received funding is for use at specific schools, rather than to be shared among multiple schools. As a result, the Beneficiary requested incorrect funding amounts for each of the 20 schools on its FCC Form 471. While the errors offset each other in total, the Beneficiary's requested funding exceeded the service

provider's bid for six of the schools, resulting in an overstatement of $610,134 for the six schools.

Cause

The Beneficiary's FCC Form 471 included two funding requests for all internal connections equipment. The Beneficiary considered each of these line items to be a shared service for all service recipients listed, rather than a site-specific service. When the Beneficiary followed USAC's instructions for allocating costs to schools sharing services, it chose the option to allocate costs proportionately by enrollment rather than reporting the actual cost for each school.

Effect

The Beneficiary had not submitted any FCC Forms 472, *Billed Entity Applicant Reimbursements* (BEARs), for reimbursement as of the audit announcement date. However, the Beneficiary overstated its funding request for six schools by a total of $610,134. The errors resulted in overcommitted SLP funding of $488,107 ($610,134 multiplied by the Beneficiary's discount rate of 80 percent) for FRN 2738035, as follows:

Entity Number	Eligible Costs Reported on FCC Form 471 and Committed FY 2015 Budget	Eligible Costs Based on the Service Provider Bid	Undiscounted Amount by Which Form 471 Exceeds Service Provider Bid	Overcommitted SLP Funding discounted at 80%
101142	$191,584	$166,886	$24,698	$19,758
101148	$193,064	$161,702	$31,362	$25,090
101150	$575,962	$314,054	$261,908	$209,527
101154	$510,934	$252,686	$258,248	$206,598
101160	$198,854	$168,349	$30,505	$24,404
101165	$153,617	$150,204	$3,413	$2,730
Total			**$610,134**	**$488,107**

FRN (Support Type)	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
2738035(Internal Connections)	$488,107	$0	$488,107

Recommendation

We recommend that:

1. USAC management reduce the funding commitment for FRN 2738035 by $488,107.

2. The Beneficiary implement controls and procedures to ensure that funding requests submitted for each entity are accurate and consistent with the Service Provider's pricing for the requested goods and services.

Beneficiary Response

Downey Unified School District (Beneficiary) maintains that it in fact complied with the Rules for Funding Year 2015 as the Rules were interpreted and presented by USAC during the period Fall 2014 – July 2015 (the period during which the RFP was prepared, the Form 471 was filed, and Program Integrity Assurance review occurred). The Beneficiary did not misstate its request for Category 2 funding. Therefore, no reduction in funding is appropriate.

1. *It appears from the **Cause** statement and the **Criteria** (first item listed) that the auditors believe that the Beneficiary's choice to consider each line item to be a shared service rather than a site-specific service is inappropriate. In fact, this choice is indeed appropriate and is not a rules violation.*

    a. *The Form 471 Instructions quoted in the first **Criteria** item are taken from Instructions from a funding year prior to FY 2015. The language defining/ describing site-specific vs. shared services does not exist in the FY 2015 Form 471 Instructions. This **Criteria** item is thus outdated and not applicable to the situation discussed in the **Finding**.*

    b. *It has long been an acceptable practice to list multiple recipients of an identical service in one line item. It is probably more accurate to call this situation multiple recipients of a common service or common equipment. See E-Rate Central News for the Week for December 1, 2014 (http://e-ratecentral.com/archive/News/News2014/weekly-news-2014-1201.asp#b2), under "E-Rate Modernization – Category Two Budget Strategies, Part 3" for a discussion of strategies when entities receive common equipment. USAC, however, refers to this situation as shared services.*

    c. *The USAC SLD News Brief dated March 13, 2015, includes the following:*

    "Q10. How do I indicate which products or services should be counted against which budgets?

    A10. In the new online FCC Form 471, you will indicate which school or library is getting the products and services in an FRN. For category two FRNs, you will have to indicate how much of the FRN line item costs should be allocated to each school or library. A single FRN line item for the same product or service can include multiple schools or libraries, each with their own cost allocation." (Italics added.)

Therefore, it was proper for the Beneficiary to choose the shared services approach and to follow USAC's instructions for allocating costs to entities sharing services.

2. *The year from summer 2014 through summer 2015 saw massive changes in the Erate program, as USAC and applicants were forced to rapidly develop new online forms (including a new 471), new instructions, and new strategies in response to two Erate Modernization Orders and additional clarification documents. This was the first year of implementation of Category 2 budgets, resulting in much uncertainty, online speculation by national consulting organizations, and applicants having to pore through dense 471 instructions and rely on USAC training materials to figure out how to interpret and follow the new rules and options.*

   A primary source of information was the presentation "Category Two Budgets" from USAC's Fall 2014 Applicant Trainings (http://www.usac.org/_res/documents/SL/training/2014/8-Setting-Applicant-Budgets.pdf).

   Slide 11 consisted of the following:

   How do I allocate costs for shared services?

   - *On the FCC Form 471, you indicate how funding should be allocated among entities sharing services.*
   - *Your allocation can be:*
     – *Straight-line (all entities share the cost equally)*
     – *Proportional (based on student count/square footage of each entity)*
     – *Specific (you specify each entity's share)*

   Slide 16 had the following:

   Example 5
   My school district has three schools – School A with 25 students, School B with 50 students, and School C with 75 students. How do I correctly allocate a shared service with a pre-discount cost of $300?

Straight line	*Proportional by students*	*Specific (e.g., usage)*
A = $100	*A = 25/150 x $300 = $50*	*A uses 30% = $90*
B = $100	*B = 50/150 x $300 = $100*	*B uses 15% = $45*
C = $100	*C = 75/150 x $300 = $150*	*C uses 55% = $165*
$300	*$300*	*$300*

   Neither slide addresses the propriety of choosing one allocation method over another, nor do any other slides in the presentation. The Beneficiary's consultants attended the Los Angeles USAC training and were left with the strong impression that the applicant was allowed to choose any of the three methods, and that a justification *was required only for the third method, specifying each entity's share. The Beneficiary acted on this understanding in preparing the Form 471.*

3. *In regard to the second **Criteria** item, Question 11 from the USAC SLD News Brief: "These funds cannot be shifted or averaged across your school district or library system." Please note that this rule is not absolute: costs for shared services may be allocated among several recipients of service. "The costs for Category two services shared by multiple eligible entities shall be divided reasonably between each of the entities for which support is sought in that funding year." (third **Criteria** item). The Beneficiary did not shift funds across the district on its 471; rather, it performed a legitimate cost allocation.*

4. *Per page 17 of the FY 2015 Form 471 Instructions, "Cost allocations must be based on tangible criteria and reach a realistic result." Although specific quantities of various types of equipment were cited in the RFP, and vendor bids were specific by site, these quantities were only estimates of the needs per site and it was anticipated that the quantities would change as the internal connections project proceeded. In order to provide some flexibility for changes, the Beneficiary chose to use the shared services method of developing FRNs rather than making one FRN per school and selected a reasonable allocation method that also served to keep all schools but one under their Category 2 budget caps. The Beneficiary based its cost allocation on a tangible criterion: student enrollment. As each school's equipment requirements would be determined by the physical size of the school and the amount of use students and staff would make of the network, it was reasonable to assume that student enrollment would be closely related to equipment needs, and cost allocation by enrollment would produce a realistic result.*

5. *That the Beneficiary's choices were considered allowable by USAC in June 2015 is demonstrated by the fact that Program Integrity Assurance review, in full knowledge of the circumstances, approved the requested amounts for FRN 2738035 with only minor changes. On June 23, 2015, the Beneficiary supplied the PIA reviewer with a spreadsheet detailing the projected numbers of equipment per school. On June 24, the reviewer acknowledged, "I reviewed all the documentation provided and I do have one follow up question." This question had nothing to do with the cost allocations. That the reviewer did indeed examine cost allocations is shown by the fact that he required the allocation for Unsworth Elementary be reduced to fit within its Category 2 budget.*

   The Form 471 was also subjected to a months-long Special Compliance Review in the fall of 2015. This review also did not reject the Beneficiary's choice of allocation method.

***In conclusion**, the Beneficiary (1) maintains that it broke no rules as they were presented and interpreted at the time and (2) requests that USAC honor its training presentation and reviewers' decisions and make no commitment adjustment to FRN 2738035.*

In regard to Recommendation #2: *"The Beneficiary implement controls and procedures to ensure that funding requests submitted for each entity are accurate and within the entity's Category Two budget."*

1. *The Beneficiary maintains that this audit was premature, coming as it did before the Beneficiary invoiced USAC for the internal connections funding requests. The Beneficiary has always intended to invoice only for those amounts that are eligible under the rules, but has refrained from submitting any invoices pending results of the audit. Therefore, the Beneficiary has been unable to demonstrate that it does indeed have the proper controls and procedures in place.*

2. *Funding Year 2015 was a time of great change, uncertainty, and fluidity of interpretation of newly implemented FCC rules. The Beneficiary understands that interpretations of the Rules have solidified since 2014-15, and has implemented controls and procedures to ensure that future funding requests are accurate and within Category 2 budgets, within the current interpretation of the rules.*

ALTERNATIVELY:
Should USAC determine that the by-enrollment allocation method used on the Form 471 was in error and a substantial commitment adjustment is necessary, the Beneficiary wishes to present the following alternative argument.

*The **Finding** states that the **Cause** of the problem was the Beneficiary's choice to allocate costs proportionately by enrollment rather than by actual cost per school. The appropriate corrective measure would therefore be to directly address the cause by re-examining each line item of FRNs 2738035 and 2849457, reallocating costs according to actual costs of services per school, and reducing total costs requested for appropriate line items by subtracting as ineligible amounts that exceed individual schools' Category 2 budgets.*

This is the process the Beneficiary would have followed if any of the reviewers of the 471 had determined that using the by-enrollment allocation method constituted a ministerial error. Please see the table "DUSD Pre-Discount Cost Reallocation Table" in Appendix A. This table details how eligible pre-discount costs would be reallocated among recipients of service.

The table was initially populated with the auditors' figures for eligible costs per school as shown on the vendor's bids. Then, costs were subtracted to reflect (1) costs declared ineligible during PIA review and (2) costs that exceed each entity's individual Category 2 budget.

This reallocation process results in a reduction in overall eligible costs on FRNs 2738035 and 2849457 from $3,119,158.04 to $2,629,369.78, a difference of $489.788.26. (Notice that this figure matches the amount in the total row of the last column of the chart at the top of page 6, "Amount by Which Service Provider Bid Exceeds Category Two Budget.") 80% of $489,788.26 is $391,830.61.

Hence, the Beneficiary believes that, if a commitment adjustment of FRN 2738035 is deemed necessary, it should be no more than ***$391,830.61.***

As to the ***Recommendation*** *of a reduction in funding of FRN 2738035 by $488,107:*

Erate eligibility of costs is determined by two factors: First, the services must be eligible and must serve eligible entities. The auditors appear to have accepted as eligible those entities and services (and their associated costs per unit) that were deemed eligible during USAC review. Second – and on the Form 471 figured subsequent to the first factor – the cost for the services is eligible up to the Category 2 budget for each individual entity receiving the services. Costs exceeding the budget cap are considered ineligible. Costs for equipment that is by type/use eligible and whose costs fit within the budget of the eligible entities actually receiving service are thus intrinsically eligible for Erate support. As the Reallocation Table shows, the Beneficiary clearly received (at least) $2,629,369.78 in services that fit this definition and are therefore in essence eligible.

As is clearly demonstrated in the table, only $489,788.26 was essentially (allegedly) ineligible by rule. Thus, the statement under ***Effect****, "The errors [alleged overstatement of funding request for six schools* *<u>and</u>* *having 12 schools over their Category 2 budgets] resulted in undiscounted ineligible costs of $610,134 for FRN 2738035" is simply inaccurate.*

There are only (at most) $489,788 in ineligible costs represented in that figure, <u>caused solely by 12 entities' allegedly exceeding their Category 2 budgets</u>. The alleged overstatement of funding requests for six schools actually had no material effect on the essential, underlying eligibility of the remaining $120,346. This amount represents the total of eligible costs allegedly "shifted" by the by-enrollment allocation from schools that actually can handle those amounts under their Category 2 budget caps. That the allocations were allegedly originally misplaced does not affect the instrinsic Erate eligibility of the $120,346, which represents eligible equipment at eligible sites with costs that fit within the sites' Category 2 budgets, making the costs by definition eligible for Erate support.

Phrased another way: The appropriate focus of the ***Finding*** *is the effect the alleged rules violations have on the eligible costs and hence on the commitment amount. Of the $610,134 allegedly overstated, $489,788 affects the eligible costs and commitment amount. Should USAC require a commitment adjustment, it should be taken based only on this amount, at the most.*

<u>The remaining $120,346 that was allegedly overstated has no effect on the amount of eligible costs and hence no effect on the commitment amount</u>, because that $120,346 includes only eligible costs. A rules violation with no actual monetary effect should not require a commitment adjustment. All that should be required is to properly assign these costs to the entities receiving service, so that their Category 2 budgets accurately reflect the costs for services received.

In summary, the Beneficiary believes that, if a commitment adjustment of FRN 2738035 is deemed necessary, it should be no more than $391,830.61.

Auditor Response
The Category 2 equipment for which the Beneficiary received funding is for use at specific schools, rather than to be shared among multiple schools. USAC guidance and rules for allocating costs of shared services therefore do not apply to these FRNs.

The Beneficiary included a spreadsheet with its response, labeled Appendix A, which we have included as an appendix to this report. This Appendix demonstrates that, if the Beneficiary were allowed to reallocate USAC funding based on the cost of equipment to be installed at each school, total ineligible pre-discount equipment costs would be reduced to $489,789, or the amount by which equipment costs exceed the specific schools' Category 2 budgets. This amount agrees with Cotton & Company's calculations. However, USAC's rules do not permit the Beneficiary to shift funding between schools. Therefore, for the reasons stated here, we made no changes to the audit finding as a result of the Beneficiary's response.

Criteria

Finding	Criteria	Description
1	Instructions for Completing the Schools and Libraries Universal Service Services Ordered and Certification Form (FCC Form 471), OMB 3060-0806, Oct. 2014 (FCC Form 471 Instructions), Item 21	*Item 21b – Internal Connections* *For each unique product or service, provide the information below in addition to the narrative description.* • *Type of Internal Connections – e.g., wireless data distribution, cabling or connectors.* • *Type of Product – e.g., router, firewall, cabling, coax.* • *Quantity and unit.* • *Make.* • *Model.* • *Indicate if this is being procured under a lease or non-purchase arrangement.* • *Enter the costs for the service, as described above.* • *From the list you entered in Block 4, select the schools, libraries and NIFs that are receiving this service. As indicated above, you will need to allocate the cost of the service among the recipients of service. The system can help you with straight line cost allocations or you can use another method for allocating the costs, as long as the cost-allocation methodology is based on tangible criteria and reaches a realistic result.*
1	USAC SLP News Brief, March 13, 2015	***Q11. Can school districts or library systems shift funds or average costs between their schools and libraries? A11.*** *No, category two funding must be spent for the specific school or library for which they are allotted. These funds cannot be shifted or averaged across your school district or library system.*

Finding	Criteria	Description
1	47 CFR §54.502 (2)(b) (2015)	*(1) Five-year budget. Each eligible school or library shall be eligible for a budgeted amount of support for category two services over a five-year funding cycle beginning the first funding year support is received. Excluding support for internal connections received prior to funding year 2015, each school or library shall be eligible for the total available budget less any support received for category two services in the prior funding years of that school's or library's five-year funding cycle. The budgeted amounts and the funding floor shall be adjusted for inflation annually in accordance with §54.507(a)(2).* *(2) School budget. Each eligible school shall be eligible for support for category two services up to a pre-discount price of $150 per student over a five-year funding cycle. Applicants shall provide the student count per school, calculated at the time that the discount is calculated each funding year. New schools may estimate the number of students, but shall repay any support provided in excess of the maximum budget based on student enrollment the following funding year.* *(5) Requests. Applicants shall request support for category two services for each school or library based on the number of students per school building or square footage per library building. Category two funding for a school or library may not be used for another school or library. If an applicant requests less than the maximum budget available for a school or library, the applicant may request the remaining balance in a school's or library's category two budget in subsequent funding years of a five year cycle. The costs for category two services shared by multiple eligible entities shall be divided reasonably between each of the entities for which support is sought in that funding year.*

COTTON & COMPANY LLP

Michael W. Gillespie, CPA, CFE
Partner
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Appendix A: Beneficiary Pre-Discount Cost Reallocation Table

APPENDIX A: DUSD PRE-DISCOUNT COST REALLOCATION TABLE

FRN 2738035

		Line Item 1	Line Item 2	Line Item 3	Line Item 4	Line Item 5	Line Item 6	Line Item 7	Line Item 8	Line Item 9	Line Item 10	Line Item 11	Line Item 12	Line Item 13	Line Item 14	Line Item 15	Line Item 16	FRN 2849457	Totals	C2 Budget
101140	Unsworth Elementary School	$13,934.56	$10,458.77	$7,237.60	$1,809.40	$21,685.72	$7,929.53	$19,615.64	$6,072.00	$183.12	$5,590.69	$1,850.00	$1,133.60	$0.00	$1,696.00	$576.00	$0.00	$577.37	$100,350.00	$100,350.00
101141	Price Elementary School	$16,024.74	$7,844.08	$7,237.60	$1,809.40	$16,264.29	$7,929.53	$17,654.08	$4,830.00	$137.34		$1,850.00	$1,133.60	$19,556.78	$1,888.00	$432.00	$21,901.00	$577.37	$127,069.81	$133,950.00
101142	Griffiths Middle School	$19,508.38	$12,201.90	$7,237.60	$1,809.40	$25,300.01	$7,929.53	$27,461.90	$6,900.00	$213.64		$1,850.00	$1,133.60	$24,308.09	$2,208.00	$672.00	$27,575.00	$577.37	$166,886.42	$213,450.00
101143	Gallatin Elementary School	$14,979.65	$7,844.08	$7,237.60	$1,809.40	$16,264.29	$8,539.50	$17,654.08	$4,830.00	$137.34		$1,850.00	$1,220.80	$20,849.90	$1,824.00	$432.00	$0.00	$577.37	$106,050.00	$106,050.00
101144	Rio Hondo Elementary School	$17,069.84	$9,587.20	$7,237.60	$1,809.40	$19,878.58	$8,539.50	$21,577.20	$5,658.00	$167.86		$1,850.00	$1,220.80	$20,754.69	$2,016.00	$528.00	$10,377.96	$577.37	$128,850.00	$128,850.00
101147	Rio San Gabriel Elementary School	$14,282.92	$6,972.51	$7,237.60	$1,809.40	$14,457.15	$10,369.39	$15,692.51	$4,416.00	$122.08		$1,850.00	$1,482.40	$16,788.18	$1,856.00	$384.00	$21,620.00	$577.37	$119,917.51	$129,150.00
101148	Doty Middle School	$18,811.66	$12,201.90	$7,237.60	$1,809.40	$25,300.01	$7,319.57	$27,461.90	$6,900.00	$213.64		$1,850.00	$1,046.40	$21,385.80	$2,112.00	$672.00	$26,803.00	$577.37	$161,702.24	$215,100.00
101150	Downey High School	$26,824.03	$31,376.30	$7,237.60	$1,809.40	$65,057.17	$12,199.28	$23,538.77	$6,072.00	$549.36		$1,850.00	$1,744.00	$58,458.88	$3,104.00	$1,728.00	$71,928.00	$577.37	$314,054.16	$641,700.00
101153	Williams Elementary School	$14,631.29	$8,715.64	$7,237.60	$1,809.40	$18,071.44	$7,319.57	$19,615.64	$5,244.00	$152.60		$1,850.00	$1,046.40	$24,687.41	$1,728.00	$480.00	$5,783.65	$577.37	$118,950.00	$118,950.00
101154	Warren High School	$35,533.13	$20,917.54	$7,237.60	$1,809.40	$43,371.45	$10,369.39	$3,923.13	$1,932.00	$366.24		$1,850.00	$1,482.40	$54,422.61	$3,808.00	$96.00	$64,990.00	$577.37	$252,686.25	$569,250.00
101157	Columbus & Adult School	$13,175.85	$16,559.72	$7,237.60	$1,809.40	$0.00	$12,199.28	$0.00	$0.00	$289.94		$0.00	$1,744.00	$0.00	$2,560.00	$912.00	$0.00	$962.21	$57,450.00	$57,450.00
101160	Stauffer Middle School	$21,250.20	$10,458.77	$7,237.60	$1,809.40	$21,685.72	$7,319.57	$23,538.77	$6,072.00	$183.12		$1,850.00	$1,046.40	$25,364.30	$2,336.00	$576.00	$37,044.00	$577.37	$168,349.22	$221,550.00
101161	Alameda Elementary School	$17,766.56	$8,715.64	$7,237.60	$1,809.40	$18,071.44	$6,099.64	$19,615.64	$5,244.00	$152.60		$1,850.00	$872.00	$10,806.11	$1,952.00	$480.00	$0.00	$577.37	$101,250.00	$101,250.00
101162	Gauldin Elementary School	$12,889.47	$6,100.95	$7,237.60	$1,809.40	$12,650.01	$9,149.46	$13,730.95	$4,002.00	$106.82		$1,850.00	$1,308.00	$15,639.32	$1,664.00	$336.00	$7,698.66	$577.37	$96,750.00	$96,750.00
101165	Sussman Middle School	$10,450.92	$13,073.46	$7,237.60	$1,809.40	$27,107.16	$6,709.60	$7,846.26	$2,760.00	$228.90		$1,850.00	$959.20	$35,041.32	$1,312.00	$192.00	$33,049.00	$577.37	$150,204.18	$171,150.00
101166	Imperial Elementary School	$14,282.92	$7,844.08	$7,237.60	$1,809.40	$16,264.29	$7,319.57	$17,654.08	$2,737.35	$137.34		$1,850.00	$1,308.00	$0.00	$1,696.00	$432.00	$0.00	$577.37	$81,150.00	$81,150.00
101168	Ward Elementary School	$11,147.65	$6,100.95	$7,237.60	$1,809.40	$12,650.01	$7,929.53	$13,730.95	$4,002.00	$106.82		$1,850.00	$1,133.60	$1,198.13	$1,440.00	$336.00	$0.00	$577.37	$71,250.00	$71,250.00
101170	Lewis Elementary School	$16,721.47	$6,100.95	$7,237.60	$1,809.40	$12,650.01	$7,929.53	$13,730.95	$4,002.00	$106.82		$1,850.00	$1,133.60	$20,404.80	$1,952.00	$336.00	$19,707.51	$577.37	$116,250.00	$116,250.00
101171	Carpenter Elementary School	$12,192.74	$6,972.51	$7,237.60	$1,809.40	$14,457.15	$7,319.57	$15,692.51	$4,416.00	$122.08		$1,850.00	$1,046.40	$5,418.67	$1,504.00	$384.00	$0.00	$577.37	$81,000.00	$81,000.00
213731	Old River Elementary School	$10,450.92	$8,715.64	$7,237.60	$1,809.40	$18,071.44	$6,099.64	$19,615.64	$5,244.00	$152.60		$1,850.00	$1,133.60	$26,482.15	$1,280.00	$480.00	$0.00	$577.37	$109,200.00	$109,200.00
	New Eligible Costs:	$331,928.91	$218,762.56	$144,752.00	$36,188.00	$419,257.34	$166,520.17	$339,350.57	$91,333.35	$3,830.26	$5,590.69	$35,150.00	$24,328.80	$401,567.14	$39,936.00	$10,464.00	$348,477.78	$11,932.20	$2,629,369.78	
	Approved Eligible Costs on 471:	$339,654.90	$218,762.56	$144,752.00	$36,188.00	$453,593.07	$166,520.17	$376,620.29	$102,396.00	$3,830.26	$10,198.96	$37,000.00	$24,328.80	$520,242.83	$39,936.00	$10,464.00	$622,738.00	$11,932.20	$3,119,158.04	
	New Ineligible Costs:	$7,725.99	$0.00	$0.00	$0.00	$34,335.73	$0.00	$37,269.72	$11,062.65	$0.00	$4,608.27	$1,850.00	$0.00	$118,675.69	$0.00	$0.00	$274,260.22	$0.00	$489,788.26	

Attachment C

SL2016BE048

KPMG

Cleveland City School District Audit ID: SL2016BE048 (BEN: 129482)

Performance audit for the Universal Service Schools and Libraries Program Disbursements related to the Period from July 1, 2015 to June 17, 2016

Prepared for: Universal Service Administrative Company

As of Date: August 4, 2017

KPMG LLP
1225 17th Street
Suite 800
Denver, CO 80202

TABLE OF CONTENTS

KPMG LLP
Suite 800
1225 17th Street
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EXECUTIVE SUMMARY

August 4, 2017

Mr. Wayne Scott, Vice President – Internal Audit Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to the Cleveland City School District, Billed Entity Number ("BEN") 129482, ("CCSD" or "Beneficiary") for disbursements of $2,096,262 and commitments of $3,849,260 made from the federal Universal Service Schools and Libraries Program related to the period from July 1, 2015 to June 17, 2016 (hereinafter "audit period"). Our work was performed during the period from July 11, 2016 to August 4, 2017, and our results are as of August 4, 2017.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2011 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program ("E-rate Program") set forth in 47 C.F.R. Part 54 of the Federal Communications Commission's ("FCC") Rules as well as other program requirements (collectively, the "Rules") that determined the Beneficiary's eligibility and resulted in commitments of $3,849,260 and disbursements of $2,096,262 made from the E-rate Program related to the audit period. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As our report further describes, KPMG identified five findings as discussed in the Audit Results and Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to the audit period were $15,179 higher than they would have been had the amounts been reported properly.

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated August 4, 2017.

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

Sincerely,

KPMG LLP

List of Acronyms

Acronym	Definition
Audit Period	Period from July 1, 2015 to June 17, 2016
BEAR	Billed Entity Applicant Reimbursement
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
CIPA	Children's Internet Protection Act
CCSD	Cleveland City School District
CMSD	Cleveland Metropolitan School District
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 472	Billed Entity Applicant Reimbursement Form
FCC Form 474	Service Provider Invoice Form
FCC Form 479	Certification of Compliance with the Children's Internet Protection Act
FCC Form 486	Receipt of Service Confirmation and Children's Internet Protection Act and Technology Plan Certification Form
FCDL	Funding Commitment Decision Letter
FRN	Funding Request Number
Funding Year 2015	The twelve-month period from July 1, 2015 to June 30, 2016 during which E-rate Program support is provided
Item 21	Description of the products and services for which discounts are sought in the FCC Form 471
MIBS	Managed Internal Broadband Services
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery
SL2016BE048-F01: Beneficiary Over-Invoiced SLP for Services Delivered to Locations Not Requested in Its FCC Form 471 – Entities were listed on the Service Provider invoices and FCC Form 474 submissions that were not included on the FCC Form 471 Item 21 related to FRN 2861464 for MIBS.	$ 14,142	$ 14,142
SL2016BE048-F02: Service Provider Under-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills – The Service Provider under-invoiced SLP for cellular voice services under FRN 2834224.	$ -	$ -
SL2016BE048-F03: Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills – The Service Provider over-invoiced SLP for local phone (voice) service under FRN 2834206.	$ 1,037	$ 1,037
SL2016BE048-F04: Untimely Payments to Service Provider – The Beneficiary did not pay the full Beneficiary portion of the sampled Service Provider bills related to FRNs 2834224 and 2834235 for Voice Services.	$118,817	$ -*
SL2016BE048-F05: Category 2 Budget - Documentation Did Not Support Figures Reported on the FCC Form 471 – The Beneficiary could not support enrollment data used to calculate the Category 2 Budget as reported on the FCC Form 471.	$ -**	$ -**
Total Net Monetary Effect	**$133,996**	**$15,179**

* Should the services remain unpaid, we would consider them to be free services, and SLP's share of charges should be reduced to reflect the value of free services received. However, if the dispute between the Beneficiary and Service Provider is resolved, and the remaining services are paid, there will be no recovery recommended.

**This finding impacts the total amount of eligible recoveries for Category 2 services over the five-year budget period but does not directly impact Funding Year 2015 commitment or disbursement amounts.

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for FRN recovery amounts. USAC will follow-up with the Beneficiary and will determine any recovery amount consistent with program rules. USAC will also request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC directs the Beneficiary to USAC's website under "Reference Area" for additional guidance on Invoicing and Category Two Budgets available at (http://usac.org/sl/tools/reference-area.aspx).

Further, USAC recommends the Beneficiary and Service Provider subscribe to USAC's weekly News Brief which provides program participants with valuable information. Enrollment can be made through USAC's website under "Trainings and Outreach" available at (http://www.usac.org/sl/tools/news-briefs/Default.aspx).

FRN	Recovery Amount
2861464	$14,142
2834206	$ 1,037
Total	**$15,179**

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

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

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

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

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

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of $3,849,260 and disbursements of $2,096,262 made for the audit period.

Beneficiary Overview

The Cleveland City School District (BEN# 129482) is a school district located in Cleveland, Ohio that serves over 43,000 students.

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

Service Type	Amount Committed	Amount Disbursed
Telecommunications Services (Data Transmission Services)	$1,008,720	$ 540,855
Internet Access	$ 68,997	$ 46,566
Voice Services	$1,374,449	$ 394,594
Managed Internal Broadband Services	$1,397,094	$1,114,247
Total	**$3,849,260**	**$2,096,262**

Source: USAC

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2015. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2015 as of June 17, 2016.

The committed total represents two FCC Form 471 applications with eleven FRNs. We selected nine FRNs, which represent $3,841,866 of the funds committed and $2,094,336 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2015 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of $3,849,260 and disbursements of $2,096,262 made from the E-rate Program for the audit period. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2015 and disbursements received during the audit period, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, physical inventory of equipment purchased and maintained, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for the audit period.

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

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

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary for Funding Year 2015 and received by the Beneficiary during the audit period. The procedures conducted during this performance audit include the following:

1. **Application Process**

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

2. **Competitive Bid Process**

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

3. **Calculation of the Discount Percentage**

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

4. **Invoicing Process**

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

5. **Site Visits**

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

6. **Reimbursement Process**

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

7. Record Keeping

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

8. Final Risk Assessment

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

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary's responses with respect to the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2015 commitments and disbursements made from the E-rate Program for the audit period.

Findings, Recommendations and Beneficiary Responses

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

Finding No.	**SL2016BE048-F01: Beneficiary Over-Invoiced SLP for Services Delivered to Locations Not Requested in Its FCC Form 471**
Condition	Four entities (Campus International South, COLO Facility, Dike Montessori Elementary School, and Kentucky Elementary School) were included in the Service Provider bills and were listed in the SPI Form submissions to USAC (SPI Form Nos. 2320789, 2357225, 2375036, 2380078, and 2389636), but were not included on the FCC Form 471 Item 21 related to FRN 2861464 for MIBS.
Cause	The Beneficiary did not have an effective review process in place to ensure that all eligible entities were included on the FCC Form 471 Item 21 prior to submission.
Effect	The monetary effect of this finding is an over disbursement of $14,142 under FRN 2861464 (calculated as the undiscounted cost of $16,636 multiplied by the discount rate of 85 percent).
Recommendation	KPMG recommends the Beneficiary implement an effective review process to ensure that all eligible entities are included on the FCC Form 471 Item 21 prior to submission.
Beneficiary Response	CMSD acknowledges that for FY2015, the district and the Service Provider did not communicate sufficiently to ensure that all sites receiving eligible MIBS services were included as recipients of service on the Form 471. In anticipation of the FY2016 invoices, CMSD and the Service Provider have both reviewed the invoices and the FY2016 Form 471 to ensure that only sites that were listed on the Form 471 will be invoiced to the SLD. Note, neither the COLO Facility or Kentucky Elementary School had charges associated with them that were billed to the SLD. The sites were listed on the invoice with zero E-rate eligible charges associated with them.
Service Provider Response	IntelliNet (Service Provider) welcomes the opportunity to further participate in any and all review processes.

Finding No.	**<u>SL2016BE048-F02: Service Provider Under-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills</u>**
Condition	The Service Provider under-invoiced SLP related to FRN 2834224 for Voice Services. The Service Provider requested reimbursement of $9,676 from SLP on FCC Form 474 No. 2376876; however, the discounted amount eligible for reimbursement per the Service Provider bill was $16,299.
Cause	The Beneficiary did not have an effective process for reviewing and reconciling Service Provider bills to ensure that amounts submitted for reimbursement were accurate. The Service Provider did not have an effective process for reviewing and reconciling Service Provider bills to ensure that amounts submitted for reimbursement were accurate.
Effect	The audit identified an under disbursement of $1,733 under FRN 2834224 (calculated as the undiscounted cost of $16,299 multiplied by the discount rate of 70 percent, less the amount requested of $9,676). However, subsequent to communication of the audit finding, the Service Provider corrected discounting errors as noted in the Service Provider response below. Therefore, there is no monetary effect associated with the finding.
Recommendation	KPMG recommends the Beneficiary enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure the amounts submitted for reimbursement via the FCC Form 474 are accurate. KPMG recommends the Service Provider enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure the amounts submitted for reimbursement via the FCC Form 474 are accurate.
Beneficiary Response	CMSD does review the cellular service billing and has to rely on reporting provided by the Service Provider. The breakdown of eligible and ineligible voice and data service charges is not apparent on the face of the bill. CMSD will continue to review the billing but the Service Provider does not provide CMSD with copies of the SPI to approve before filing with USAC for reimbursement.
Service Provider Response	AT&T identified an E-rate discounting error where cost allocations were calculated incorrectly resulting in under E-rate discounting on some of AT&T Mobility service FRNs. AT&T has verified that the FRN in question (FRN 2834224) was included with the impacted FRNs/accounts. Our National E-rate Center of Excellence (NECOE) performed recalculations, corrected, and reconciled impacted FRNs/Accounts, Below is what was originally discounted for Government Pooled mobility services, compared to the corrected discounts.

BEFORE CORRECTION		AFTER CORRECTION	
Month	**Amount**	**Month**	**Amount**
Jul-15	$1,723.57	Jul-15	$3,193.61
Aug-15	$1,725.65	Aug-15	$3,197.52
Sep-15	$1,727.38	Sep-15	$3,200.64
Oct-15	$1,713.94	Oct-15	$3,178.28
Nov-15	$1,709.16	Nov-15	$3,169.43
Dec-15	$1,713.08	Dec-15	$3,176.63
Jan-16	$1,732.84	Jan-16	$3,213.53
Feb-16	$1,735.44	Feb-16	$3,218.27
Mar-16	$1,709.71	Mar-16	$3,170.57
Apr-16	$1,689.30	Apr-16	$3,132.57
May-16	$1,153.71	May-16	$2,139.76
Jun-16	$793.43	Jun-16	$1,472.18
	$19,127.21		**$35,462.99**

A debit in the amount of ($19,127) was posted on 11/28/16 and the corrected discount in the amount of $35,470 was posted on 12/9/16.

KPMG Response The Service Provider performed an analysis and identified discounting errors for the entire Funding Year, while KPMG's finding related to an individual sampled month.

The Service Provider has indicated it has corrected invoicing to reflect the appropriate charges. Because controls were not in place to identify the discounting errors prior to our audit, the finding remains. However, following the corrective actions, there is no longer a monetary effect associated with the finding.

Finding No. **SL2016BE048-F03: Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills**

Condition The Service Provider requested reimbursement of $14,996 from SLP as of June 17, 2016 related to FRN 2834206 for Voice Services; however, the discounted amount eligible for reimbursement per the Service Provider bills was $13,959. As such the Service Provider over-invoiced SLP by $1,037 for local phone (voice) services.

Cause The Beneficiary did not have an effective process for reviewing and reconciling Service Provider bills to ensure that amounts submitted for reimbursement were accurate.

The Service Provider did not have an effective process for reviewing and reconciling Service Provider bills to ensure that amounts submitted for reimbursement were accurate.

Effect The monetary effect of this finding is an over-disbursement of $1,037 under FRN 2834206 (calculated as the amount requested of $14,996, less the actual undiscounted cost of $19,941 multiplied by the discount rate of 70 percent).

Recommendation KPMG recommends the Beneficiary enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure the amounts submitted for reimbursement via the FCC Form 474 are accurate.

KPMG recommends the Service Provider enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure the amounts submitted for reimbursement via the FCC Form 474 are accurate.

Beneficiary Response CMSD does review the POTS billing to ensure that services were received as invoiced. CMSD choose to utilize the Form 474 and have the Service Provider determine the E-rate eligible charges to invoice to the SLD. The Service Provider does not report to the district the amount that will be submitted for SPI payment.

It is the understanding of CMSD that during the course of FY15, Windstream did an internal review of their own procedures and has determined that the amount found in the audit report will be returned to the SLD.

Service Provider Response The Service Provider, Windstream, agrees with the finding that the Beneficiary received non-eligible funding for the 2015-2016 funding year. Windstream provided KPMG with an internal audit for FRN 2834206 noting the Beneficiary was over discounted for FY2015 by the amount of $1,037. Windstream has accordingly charged-back/reversed the non-eligible discounts on the applicant's December 2016 bill and will be returning the funds to USAC via our USAC invoicing process for the December 2016 activity.

Finding No. **<u>SL2016BE048-F04: Untimely Payments to Service Provider</u>**

Condition The Beneficiary did not pay the full Beneficiary portion of the sampled Service Provider bills related to FRNs 2834224 and 2834235 for Voice Services. The Beneficiary received services for which payment had not yet been made as of the report date.

<u>FRN 2834235 (FCC Form 474 Nos. 2306851, 2349329, and 2377253)</u>

The sampled Service Provider bills dated July through October 2015, December 2015, and February 2016 totaled $446,772, including charges of $285,477 for eligible services and $161,295 for ineligible services. The discounted share of eligible charges was $199,833, which agrees to the amounts requested and disbursed by SLP. The Beneficiary's (non-discount) share of eligible charges was $85,644. In addition, the Beneficiary is responsible for payment of the ineligible charges totaling $161,295, bringing the Beneficiary's total share of Service Provider bills to $246,939. The Beneficiary indicated they did not receive sufficient documentation from the Service Provider to enable them to determine reimbursement amounts or the Beneficiary portion of the invoices to be paid. Therefore, a partial payment amount of $83,110 was made by the Beneficiary, resulting in a potential underpayment to the Service Provider of $163,829 as payment for the ineligible services that were also provided by the Service Provider.

The Beneficiary indicated that beginning in Funding Year 2017 they do not intend to request any further E-rate discounts for this service, and are working with the Service Provider to finalize service end dates and any outstanding billings. The

Beneficiary indicated that any outstanding charges for ineligible services will be paid during the final invoicing process.

FRN 2834224 (FCC Form 474 No. 2376876)

The Beneficiary's total portion of the sampled Service Provider bill was $24,203. The payment amount made by the Beneficiary was $23,076, resulting in an underpayment of $1,127.

Cause

The Beneficiary did not have an effective process in place governing the review and reconciliation of Service Provider bills to ensure that the full amount of the non-discounted portion was paid, or to adjust requests for reimbursement to reflect the value of unpaid services received.

- For FRN 2834235, the Beneficiary calculated the payment amount by applying the discount rate to the full value of the bills, which included ineligible items. The Beneficiary then paid only the non-discounted portion of the full value of the bills rather than the non-discounted portion of the eligible items plus the full amount of the ineligible items.
- For the sampled bills under FRN 2834235 dating back to July 2015, the Beneficiary had disputed bills that remain unpaid, and did not have a process in place to eliminate the disputes, or to adjust requests under the E-rate Program to reflect the value of unpaid services received.
- For FRN 2834224, the Beneficiary calculated the payment amount using a worksheet provided by the Service Provider, which did not include fees, surcharges, and taxes, thus the total upon which the Beneficiary based their calculations was lower than the total per the actual bill.

Effect

FRN 2834235 (FCC Form 474 Nos. 2306851, 2349329, and 2377253)

The monetary effect of this finding is a potential over-disbursement of $118,817 by SLP under FRN 2834235 as of June 17, 2016. The Beneficiary paid $83,110, or 30% of $277,033, rather than 30% of the eligible charges of $285,477, or $85,643. Additionally, the Beneficiary did not pay for ineligible charges totaling $161,295. The monetary effect is calculated as follows:

$	446,772	Total of sampled Service Provider bills
$	285,477	Eligible portion of sampled Service Provider bills
$	161,295	Ineligible portion of sampled Service Provider bills
$	199,834	Amount SLP paid
$	83,110	Amount Beneficiary paid

$	277,033	Eligible services on which Beneficiary share was paid (Undiscounted) ($83,110 divided by 30%)
	(161,295)	Less Unpaid Ineligible Charges (Undiscounted)
$	115,738	
	70%	SLP Discount Percentage
$	81,017	Amount SLP would have paid if services were considered to be free services
$	199,834	Amount SLP actually paid
$	118,817	Monetary effect

Should the ineligible services remain unpaid, we would consider them to be free services, and SLP's share of charges should be reduced to reflect the value of the free services received. However, if the dispute between the Beneficiary and

Service Provider is resolved, and the remaining services are paid, there will be no recovery recommended.

FRN 2834224 (FCC Form 474 No. 2376876)

The Beneficiary's total non-discount portion of the Service Provider bill was $24,203. The payment amount made by the Beneficiary was $23,076, resulting in an underpayment by the Beneficiary to the Service Provider of $1,127. However, there is no recovery recommended for this FRN as the Beneficiary under-invoiced SLP, as described in Finding SL2016BE048-F02.

Recommendation

KPMG recommends that the Beneficiary perform a detailed review to resolve the dispute with the Service Provider and make payment on the unpaid ineligible services at the agreed amount (and reimburse SLP as necessary). KPMG also recommends the Beneficiary enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure the Beneficiary's non-discounted portion of Service Provider bills for eligible services is paid.

Beneficiary Response

FRN 2834235:

These are the facts:

- CMSD paid its bills and has not received any free services from the vendor.
- USAC only paid discounts for eligible goods and services.
- The Vendor correctly applied SPI-discounts to the CMSD account.

KPMG's finding is illogical. Discount payments were only disbursed for eligible goods and services, and this is a fact that KPMG does not dispute. Furthermore, CMSD's account with the vendor has been, and remains, in good-standing. The District has paid for all services received, either through direct payments or via SPI-related credits that were applied by the vendor.

When an applicant, such as CMSD, requests that a vendor invoice USAC directly, the vendor calculates the eligible and ineligible portions of the service and bills USAC for the discount on the eligible goods only. When the vendor receives payment from USAC, that payment is applied to the applicants account. This is precisely what happened in this case.

It should be noted that the initial invoice from the vendor did not show the E-rate discount that the vendor intended to bill to USAC. CMSD would have preferred an invoice from the vendor that showed the amount of E-rate discount to be applied; however, the vendor did not provide this information on its invoice. Therefore, CMSD paid an initial amount towards the invoice with the understanding that the vendor would calculate the E-rate discount and apply the E-rate payment to the CMSD account.

In the event CMSD did underpay AT&T, CMSD would owe the funds to AT&T. The invoices from AT&T do not clearly identify eligible or ineligible charges. AT&T did not provide CMSD with any assistance to determine reimbursement amounts or assistance to determine the exact amount that would represent CMSD's portion of the invoice to be paid. During the course of the audit, AT&T finally produced reporting that gives CMSD the ability to conduct an internal review of the invoices and determine if any additional payments are due to

AT&T.

FRN 2834224:

For AT&T Mobility, the Service Provider reported to the district the breakdown of eligible and ineligible charges. CMSD used this information to determine the district's portion and paid accordingly. The district did their due diligence to determine the portion of the billing that was theirs to pay. The Service Provider did not report the information accurately and CMSD should not be held accountable for the Service Provider's mistake.

Service Provider Response

The Service Provider chose not to respond to the finding.

KPMG Response

As recognized within the Beneficiary's response, the Beneficiary indicated that the invoices did not clearly identify the exact amounts representing the Beneficiary's portion of the invoices to be paid. At the time of the audit, a large outstanding balance totaling $242,079 remained on the AT&T bill for the cycle ended March 19, 2016. KPMG requested that the Beneficiary provide any payments made related to FRN 2834235 subsequent to May 2016, the date of the most recent checks tested as part of the audit. The Beneficiary was able to provide two subsequent checks, dated June 16, 2016 and August 4, 2016 in the amounts of $8,477 and $6,981, respectively. However, the payment evidence did not indicate whether the payments related to the bills that were tested as part of the audit, or to subsequent billings. The subsequent payment amounts were also significantly less than the outstanding balance indicated on the March bill.

At the time of the audit, the Beneficiary had not conducted a detailed review reconciling the amounts owed to AT&T. Ultimately, neither the Beneficiary nor the Service Provider could provide evidence that the correct amounts had been paid.

Finding No.

SL2016BE048-F05: Category 2 Budget - Documentation Did Not Support Figures Reported on the FCC Form 471

Condition

The Beneficiary's Category 2 Budget calculation as reported on FCC Form 471 Application No. 1046670 contained errors, as described below:

1) Students were double-counted on the FCC Form 471 at multiple schools, although the students did not attend both schools simultaneously.
   - 129 students were double-counted at Bard Early College West, Brooklawn and Carl Schuler schools.
   - 614 students were double-counted at Cleveland School for the Visual and Performing Arts and Harry Davis Junior High School.
2) An additional $9,200 (the minimum budget per school) was budgeted for John Marshall High School above the actual student count for that school. The new high school was under construction and was accounted for in the budget calculation at the minimum budget amount, although the existing high school had already accounted for all of the students enrolled.
3) The Beneficiary reported 235 students at Eagle Academy, although

documentation indicated 237 students.

4) The Beneficiary was unable to provide supporting documentation of the 82 students reported as enrolled at the High School for the Digital Arts.

Cause The Beneficiary did not perform an adequate internal review of the FCC Form 471 Application No. 1046670 to verify the data reported reconciled to supporting documentation prior to submission.

Effect The finding results in no monetary impact for Funding Year 2015. The total amount the Beneficiary is eligible to receive for Category 2 services for the five-year period should be reduced by $112,752 from $5,527,635 to $5,414,883. The Beneficiary had requested reimbursement of $1,225,672 for Category 2 Services as of June 17, 2016.

Recommendation The Beneficiary should implement a review process to confirm information reported via the FCC Form 471 is complete and accurate prior to submission.

Beneficiary Response Funding Year 2015 was the first time applicants were to report enrollment for C2 budget purposes. CMSD was unsure as to how to report the student population for schools that were being built/remodeled or where a single CMSD building was shared by multiple student populations. CMSD is working with its consultant to better reflect and count enrollment for C2 budget purposes in FY2016 and FY2017 in order to ensure that individual school locations do not exceed their C2 budget amount.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. Section 54.504(a) (2015).	"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 signing a contract or other legally binding agreement for eligible services, submit a completed FCC Form 471 to the Administrator."
#1	Instructions for Completing the Schools and Libraries Universal Service Services Ordered and Certification Form (FCC Form 471) OMB 3060-0856, (Oct. 2014), at 7-8, 17 (FCC Form 471 Instructions).	Item 7a - List of all Schools and Libraries in the School District or Library System … Please provide a complete list of all of the entities in your school district or library system, including Non-Instructional Facilities (NIF), even if they are not receiving service on this application. For each individual school or NIF in the school district, provide: • Entity number, and the system will then provide the individual school or NIF name. • National Center for Education Statistics (NCES) code: The NCES is the primary federal entity. OMB 3060-0806 Page 8 FCC Form 471 Instructions – October 2014. Some entities, such as private schools, non-instructional facilities, or new schools or schools under construction may not

Finding	Criteria	Description
		have codes. Item 21 - Each Funding Request must include a description of the products and services for which discounts are being sought. Applicants complete one or more line-item entries for all products or services in the funding request for the service type identified in Item 11. • Complete Item 21a for Telecommunications (including Voice) and Internet Access • Complete Item 21b for Internal Connections • Complete Item 21c for Managed Internal Broadband Services • Complete Item 21d for Basic Maintenance of Internal Connections In all cases, you will be asked for the following information. Additional guidance for completing Items 21a, 21b, 21c, and 21d is provided below. • Provide a narrative overview or description of the service(s) included in the funding request. • For each product or service sought, use a separate line to describe the products or services. If you have the several of the same product or service but they are delivered at different speeds, use a separate line for each. The system will automatically assign an FRN line item number to track the specific request. • Recipients of Service: o For Category One requests, the system will display the list of entities you entered in Block 4 and will allow you to select all or some of the entities to indicate who is receiving that service. If the service is a Last Mile connection, the system will also prompt you to specify, on a per entity basis, the specific quantity and types of circuits that form that last mile connection. o For Category Two requests, the system will display the list of entities you entered in Block 4 and will allow you to select all or some of the entities to indicate who is receiving that service. In addition, you will need to allocate the cost of the service among the recipients of service. In order to assist you, the system will offer to split the cost equally based on either the number of entities served, or proportionately based on the student population, or you can enter your own cost allocation. Remember that all cost allocations must be based on tangible criteria and reach a realistic result.
#2, #3	47 C.F.R. Section	"*Pre-discount price*. The 'pre-discount price' means, in this

Finding	Criteria	Description
	54.500 (2015).	subpart, the price the service provider agrees to accept as total payment for its telecommunications or information services. This amount is the sum of the amount the service provider expects to receive from the eligible school or library and the amount it expects to receive as reimbursement from the universal service support mechanisms for the discounts provided under this subpart.”
#2, #3	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Annual Certification Form (FCC Form 473), OMB 3060-0856, (July 2013), at 3 (FCC Form 473 Instructions).	Service providers must certify on the FCC Form 473 that: “Item (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. Item (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.”
#2, #3	Instructions for Completing the Universal Service for Schools and Libraries Service Provider Invoice Form (FCC Form 474), OMB 3060-0856, (July 2013), at 1 (FCC Form 474 Instructions).	“The FCC Form 474, Service Provider Invoice Form, is to be completed and submitted by a service provider that has provided discounted eligible services to eligible schools and libraries, in order to seek universal service support in the amount of the discounts. The service provider must have provided the service and given a discounted bill to the applicant prior to submitting the FCC Form 474.”
#4	47 C.F.R. Section 54.504(a)(1)(iii) (2015).	“(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).”

Finding	Criteria	Description
#4	47 C.F.R. Section 54.523 (2015).	"An eligible school, library, or consortium must pay the non-discount portion of services or products purchased with universal service discounts. An eligible school, library, or consortium may not receive rebates for services or products purchased with universal service discounts. For the purpose of this rule, the provision, by the provider of a supported service, of free services or products unrelated to the supported service or product constitutes a rebate of the non-discount portion of the supported services."
#5	47 C.F.R. Section 54.502(b)(1) (2015).	"*Five-year budget*. Each eligible school or library shall be eligible for a budgeted amount of support for category two services over a five-year funding cycle beginning the first funding year support is received. Excluding support for internal connections received prior to funding year 2015, each school or library shall be eligible for the total available budget less any support received for category two services in the prior funding years of that school's or library's five-year funding cycle. The budgeted amounts and the funding floor shall be adjusted for inflation annually in accordance with §54.507(a)(2)."
#5	47 C.F.R. Section 54.502(b)(2) (2015).	"*School budget*. Each eligible school shall be eligible for support for category two services up to a pre-discount price of $150 per student over a five-year funding cycle. Applicants shall provide the student count per school, calculated at the time that the discount is calculated each funding year. New schools may estimate the number of students, but shall repay any support provided in excess of the maximum budget based on student enrollment the following funding year."
#5	47 C.F.R. Section 54.516(a)(1) (2015).	"*Recordkeeping requirements*—(1) *Schools, libraries, and consortia*. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase."

Conclusion

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 identified five findings, Beneficiary Over-Invoiced SLP for Services Delivered to Locations Not Requested in its FCC Form 471, Beneficiary Under-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills, Beneficiary Over-Invoiced SLP for Amounts Not Reconciled to the Service

Provider Bills, Untimely Payments to Service Provider, and Category 2 Budget Documentation Did Not Support Figures reported on the FCC Form 471. Detailed information relative to the findings is described in the Findings, Recommendations and Beneficiary Responses section above.

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

Service Type	Monetary Effect of Audit Results	Recommended Recovery
Voice Services	$119,854	$ 1,037
Managed Internal Broadband Services	$ 14,142	$14,142
Total Impact	**$133,996**	**$15,179**

KPMG recommends that the Beneficiary implement an effective review process to ensure that all eligible entities are included on the FCC Form 471 Item 21 prior to submission, enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure the amounts submitted for reimbursement via the FCC Form 474 are accurate, enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure that ineligible services are removed from the FCC Form 474 and the full amount of the non-discounted portion is paid, and implement a review process to confirm information reported via the FCC Form 471 is complete and accurate prior to submission. KPMG also recommends the Service Provider enhance the policies and procedures over the review and reconciliation of Service Provider bills to ensure the amounts submitted for reimbursement via the FCC Form 474 are accurate, including ensuring that all ineligible services are removed from such reimbursement requests.

Attachment D

SL2016BE070

KPMG

Wharton Independent School District Audit ID: SL2016BE070 (BEN: 141309)

Performance audit for the Universal Service Schools and Libraries Program Disbursements related to the Period from July 1, 2015 to May 9, 2016

Prepared for: Universal Service Administrative Company

As of Date: August 4, 2017

KPMG LLP
1601 Market Street
Philadelphia, PA 19103

TABLE OF CONTENTS

KPMG LLP
1601 Market Street
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EXECUTIVE SUMMARY

August 4, 2017

Mr. Wayne Scott, Vice President – Internal Audit Division
Universal Service Administrative Company
700 12th Street, NW, Suite 900
Washington, DC 20005

Dear Mr. Scott:

This report presents the results of our work conducted to address the performance audit objectives relative to the Wharton Independent School District, Billed Entity Number ("BEN") 141309 ("WISD" or "Beneficiary") for disbursements of $199,463 and commitments of $288,114, made from the federal Universal Service Schools and Libraries Program related to the twelve-month period from July 1, 2015 to May 9, 2016 (hereinafter "audit period"). Our work was performed during the period from June 2, 2016 to August 4, 2017, and our results are as of August 4, 2017.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (2011 Revision, as amended) and *American Institute of Certified Public Accountants Consulting Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements, regulations and orders governing the federal Universal Service Schools and Libraries Program ("E-rate Program") set forth in 47 C.F.R. Part 54 of the Federal Communications Commission's ("FCC") Rules as well as other program requirements (collectively, the "Rules") that determined the Beneficiary's eligibility and resulted in commitments of $288,114 and disbursements of $199,463 made from the E-rate Program related to the audit period. Compliance with the Rules is the responsibility of the Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As our report further describes, KPMG identified one finding, as discussed in the Audit Results and Commitment Adjustment/Recovery Action section, as a result of the work performed. Based on these results, we estimate disbursements made to the Beneficiary from the E-rate Program related to the audit period were $199,463 higher than they would have been had the amounts been reported properly. Further, we estimate that commitments made to the Beneficiary from the E-rate Program related to Funding Year 2015 were $231,856 higher than they should have been as a result of the one identified finding.

In addition, we also noted other matters, that we have reported to the management of the Beneficiary, in a separate letter dated August 4, 2017.

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

Sincerely,

KPMG LLP

List of Acronyms

Acronym	**Definition**
Audit Period	Period from July 1, 2015 to May 9, 2016
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
C.F.R.	Code of Federal Regulations
FCC	Federal Communications Commission
FCC Form 470	Description of Services Requested and Certification Form 470
FCC Form 471	Description of Services Ordered and Certification Form 471
FCC Form 472	Billed Entity Applicant Reimbursement Form
FCC Form 474	Service Provider Invoice Form
FCC Form 479	Certification of Compliance with the Children's Internet Protection Act
FCC Form 486	Receipt of Service Confirmation and Children's Internet Protection Act and Technology Plan Certification Form
FCDL	Funding Commitment Decision Letter
FRN	Funding Request Number
Funding Year 2015	The twelve-month period from July 1, 2015 to June 30, 2016 during which E-rate Program support is provided
Item 21	Description of the products and services for which discounts are sought in the FCC Form 471
MIBS	Managed Internal Broadband Services
RFP	Request for Proposal
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
USAC	Universal Service Administrative Company
USF	Universal Service Fund
WISD	Wharton Independent School District

AUDIT RESULT AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery*	Recommended Commitment Adjustment*
SL2016BE070-F01: Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process –The Beneficiary gave the winning Service Provider an opportunity to modify their bid but did not provide the same opportunity to other vendors. Additionally, the Beneficiary did not retain sufficient documentation to demonstrate that a fair and open competitive bid process was conducted.	$231,856	$199,463	$231,856
Total Net Monetary Effect	**$231,856**	**$199,463**	**$231,856**

*Note: For Finding F01, the recommended recovery is $199,463 as that is the total disbursement amount as of May 9, 2016. The monetary effect is the total committed amount of $231,856 for the FRNs related to the finding. This total committed amount includes the disbursement amount identified under Recommended Recovery.

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for FRN recovery amount. USAC will request the Beneficiary provide copies of policies and procedures implemented to address the issues identified.

USAC directs the Beneficiary to USAC's website under "Competitive Bidding" for guidance on conducting fair and open competitive bid processes and performing bid evaluations (*see* http://usac.org/sl/tools/reference-area.aspx).

Further, USAC recommends the Beneficiary and Service Provider subscribe to USAC's weekly News Brief which provides program participants with valuable information. Enrollment can be made through USAC's website under "Trainings and Outreach" available at http://www.usac.org/sl/tools/news-briefs/Default.aspx.

Recovery Action	**FRN 2796160**	**FRN 2796179**	**Finding Total**
Finding # 1	**$224,950**	**$6,906**	**$231,856**

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

Program Overview

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

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

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

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

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

USAC engaged KPMG to conduct a performance audit relating to the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of $288,114 and disbursements of $199,643 made for the audit period.

Beneficiary Overview

The Wharton Independent School District (BEN# 141309) is a school district made up of seven schools located in Wharton, Texas.

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

Service Type	Amount Committed	Amount Disbursed
Internet Access	$ 30,337	$ -
Voice Services	$ 25,921	$ -
Internal Connections	$224,950	$195,346
Basic Maintenance of Internal Connections	$ 6,906	$ 4,117
Total	**$288,114**	**$199,463**

Source: USAC

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2015. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2015 as of May 9, 2016.

The committed total represents two FCC Form 471 applications with seven FRNs. We selected six FRNs, which represent $287,274 of the funds committed and $199,463 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2015 applications submitted by the Beneficiary.

Objectives

The objective of this performance audit was to evaluate the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules as well as FCC Orders governing the E-rate Program that determined the Beneficiary's eligibility and resulted in commitments of $288,114 and disbursements of $199,463 made from the E-rate Program for the audit period. See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC's Rules that are covered by this performance audit.

Scope

The scope of this performance audit includes, but is not limited to, examining on a test basis, evidence supporting the Beneficiary's compliance with the Rules in order to be eligible for the commitment amounts for Funding Year 2015 and disbursements received during the audit period, including the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, invoices supporting services delivered to the Beneficiary and reimbursed via the E-rate Program, physical inventory of equipment purchased and maintained, as well as performing other procedures we considered necessary to form a conclusion relative to disbursements made from the E-rate Program for the audit period.

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

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

Procedures

This performance audit includes procedures related to the E-rate Program for which funds were committed by SLP to the Beneficiary for Funding Year 2015 and received by the Beneficiary during the audit period. The procedures conducted during this performance audit include the following:

1. **Application Process**

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

2. **Competitive Bid Process**

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

3. **Calculation of the Discount Percentage**

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

4. **Invoicing Process**

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

5. **Site Visits**

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

6. **Reimbursement Process**

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

7. **Record Keeping**

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

8. **Final Risk Assessment**

Based on the performance of the above audit procedures for the sampled FRNs, we considered any non-compliance detected during the audit and its effect on the FRN excluded from the initial sample. We also considered whether any significant risks identified during the audit, that may not have resulted in exceptions on the FRNs audited, could affect the other FRN. KPMG concluded expansion of the scope of the audit was not warranted, as the remaining FRN involved month-to-month services and would not be impacted by the competitive bidding issues noted in Finding SL2016BE070-F01.

RESULTS

KPMG's performance audit results include a listing of findings, recommendations and Beneficiary's responses with respect to the Beneficiary's compliance with FCC requirements, and an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2015 commitments and disbursements made from the E-rate Program for the audit period.

Findings, Recommendations and Beneficiary Responses

KPMG's performance audit procedures identified one finding. The finding, including the condition, cause, effect, recommendation, Beneficiary response and Service Provider response is as follows:

Finding # SL2016BE070-F01: 47 C.F.R. Section 54.503(a) (2015) - Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process

CONDITION

The Beneficiary did not conduct a fair and open competitive bidding process for FRNs 2796160 and 2796179 based on the following issues identified:

(1) The Beneficiary provided multiple versions of the bid evaluation matrix for the Internal Connections and Basic Maintenance of Internal Connections contract. The first two versions of the matrix were dated after the original contract was executed and included revised pricing used in an amendment to correct a math error the day after the contract was signed. The pricing scores of these two versions, however, was inaccurate based on the bid prices. The last version provided, was dated before the original contract was signed and included the original pricing from the bids (before the winning bidder corrected the math errors and revised the pricing). In the original version, the winning bidder's price was more than double that of any other bidder. Even though the winning bidder received zero points for pricing, they were still selected as the winner in this evaluation. The evaluation was conducted by one individual and no additional approval process was used. The Beneficiary did not retain evidence to memorialize the timeline of the bid evaluation process, including any changes, and demonstrate the evaluation matrix was completed before the award decision was made and the contract was executed.

(2) The Beneficiary identified multiple errors within the winning Service Provider's bid and gave this provider an opportunity to make corrections to that bid. Specifically, when the Beneficiary identified conflicting brands between the wireless access points (WAPs) and license manager included in the bid, the Beneficiary instructed the Service Provider to modify their bid to change from Meraki WAPs to Aerohive WAPs. While the Beneficiary's intent may have been to correct an error, by directly instructing the winning Service Provider to change the brand of WAPs to Aerohive, they provided that Service Provider an advantage over other bidders that did not include Aerohive in their bids. The Beneficiary did not offer the same opportunity to another vendor that also included Meraki WAPs in their bid.

CAUSE

The Beneficiary identified math errors and conflicting brands in the winning Service Provider's bid and contacted the bidder to make corrections to the bid. The Beneficiary directly instructed the winning Service Provider to change the scope of their bid to include Aerohive WAPs without realizing they should offer the same opportunity to other vendors that did not include the preferred WAPs in their bids. The Beneficiary's evaluation was conducted by one individual, and therefore limited documentation and correspondence existed to validate the timeline of the bid evaluations conducted.

EFFECT

The monetary impact for this finding is a recovery of disbursements of $199,463, which represents the total disbursements of $195,346 and $4,117 under FRNs 2796160 and 2796179, respectively. Further, commitments made to the Beneficiary from the E-rate Program should be reduced by $231,856, which represents the total commitments of $224,950 and $6,906 under FRNs 2796160 and 2796179, respectively. These total commitment amounts are inclusive of the disbursement amounts noted above for each FRN.

RECOMMENDATION

KPMG recommends the Beneficiary enhance controls and visibility into the competitive bid evaluation process by creating a bid evaluation committee or review process to verify that bids are scored accurately based on the information included in the bids and by documenting bid evaluation discussions via meeting minutes or other equivalent documentation to memorialize the timeline and iterations of the evaluations conducted. Additionally, the Beneficiary should maintain a formal log of all vendor communications and ensure that any information or opportunity given to one vendor is offered equally to all vendors.

BENEFICIARY RESPONSE

Beneficiary, in general, does not agree with the Auditor's recommendation or its finding that the Beneficiary's procurement process did not provide a fair, open and competitive process, consistent with program requirements. The Beneficiary does, however, agree with the auditor's opinion that it was not the Beneficiary's intent to provide a competitive advantage in the process, by allowing amendment of a Proposer's response. The Beneficiary, in allowing the amendment, only sought to clarify and assure accuracy of the Proposer's response and did not perceive that this change would provide any advantage. Other than the general comment above, the Beneficiary provides no additional response at this time. The Beneficiary continues to search for documentation which may provide additional insight in to the process and timeline and will promptly provide such additional information, to the extent any is located.

KPMG RESPONSE

During the fieldwork procedures performed, we noted the Beneficiary did not provide the opportunity for other Service Providers to modify their bids based on the clarifying information provided to the winning Service Provider. Consistent with program requirements, the Beneficiary must treat all bidders the same and disclose to all bidders any information about the RFP including, but not limited to, changes to evaluation criteria, clarifying information about the RFP and details about the services and products requested within the scope of the RFP.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. Section 54.503(a) (2015).	"All entities participating in the schools and libraries universal service support program must conduct a fair and open competitive bidding process, consistent with all the requirements set forth in this subpart."

Finding	Criteria	Description
#1	*Request for Review of Decisions of the Universal Service Administrator by Mastermind Internet Services*, CC Docket No. 96-45, 16 FCC Rcd 4028, 4029, para. 2 (2000).	"[T]he Commission adopted competitive bidding requirements, noting that "[c]ompetitive bidding is the most efficient means for ensuring that eligible schools and libraries are informed about all of the choices available to them." The Commission found that without competitive bidding, the applicant may not receive the most cost-effective services available."
#1	*Schools and Libraries Universal Service Support Mechanism*, CC Docket Nos.02-06, et al., Sixth report and Order, 22 FCC Rcd 18762, 18799, para. 86 (2010) (*Sixth Report and Order*).	"[A]ll potential bidders and service providers must have access to the same information and be treated in the same manner throughout the procurement process. Any additional or modification to the FCC Form 470, RFP, or other requirements or specifications must be available to all potential bidders at the same time and in an uniform manner…[I]t is a violation of the Commission's competitive bidding rules if [ ] the applicant has a relationship with a service provider that would unfairly influence the outcome of a competition or would furnish the service provider with 'inside' information."

Conclusion

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 identified one finding, Beneficiary Did Not Conduct a Fair and Open Competitive Bidding Process. Detailed information relative to the finding is described in the Findings, Recommendations and Beneficiary Responses section above.

The estimated monetary effect of this finding is as follows:

Service Type	Monetary Effect of Audit Results	Recommended Recovery*	Recommended Commitment Adjustment*
Internal Connections	$224,950	$195,346	$224,950
Basic Maintenance of Internal Connections	$ 6,906	$ 4,117	$ 6,906
Total Impact	**$231,856**	**$199,463**	**$231,856**

*Note: The recommended recovery is $199,463 as that is the total disbursement amount as of May 9, 2016. The monetary effect is the total committed amount of $231,856 for the FRNs related to the finding. This total committed amount includes the disbursement amount identified under Recommended Recovery.

KPMG recommends the Beneficiary enhance controls and visibility into the competitive bid evaluation process by creating a bid evaluation committee or review process to verify that bids are scored accurately based on the information included in the bids and by documenting bid evaluation discussions via meeting minutes or other equivalent documentation to memorialize the timeline and iterations of the evaluations conducted. Additionally, the Beneficiary should maintain a formal log of all vendor communications and ensure that any information or opportunity given to one vendor is offered equally to all vendors.

Universal Service Administrative Company
Schools & Libraries Committee Meeting

INFORMATION ITEM

Schools and Libraries Support Mechanism Update

Information Presented:

This information item provides the Schools & Libraries Committee (Committee) with an update on the Schools and Libraries (SL) Support Mechanism. The update includes a discussion of third quarter 2017 highlights, SL Operations, and progress on completion of the E-rate Productivity Center (EPC).

Discussion:

Program Highlights – 3rd Quarter 2017

- Over 20,300 applications were processed in 3Q2017, committing $1.09 billion for Funding Year (FY) 2017. Total FY2017 applications processed and total funding committed through 3Q2017 is 33,624 and $1.37 billion, respectively.

- In 3Q2017, over 128,000 invoice line items were processed and paid in the amount of $690.8 million.

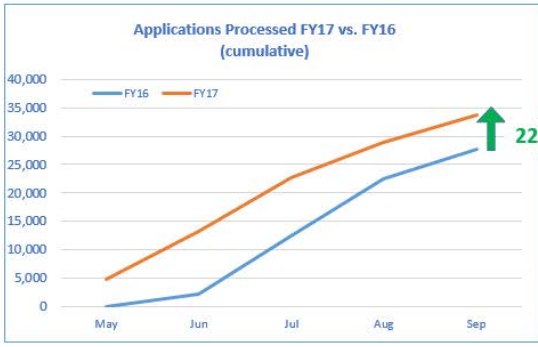
- USAC deployed EPC Release17.5, enabling post-commitment functionality including additional appeals capabilities, improved FCC Form 500 review capabilities, improved commitment adjustment (COMAD) review capabilities, and improved post-commitment reporting.

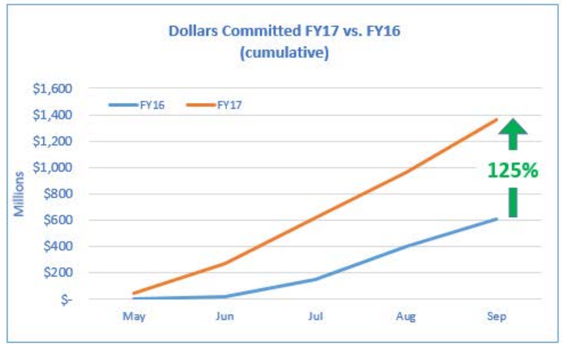
Schools and Libraries Support Mechanism Operational Update

Funding Application Review Update

Over 20,300 FY2017 applications were processed obligating $1.09 billion within 3Q2017. Cumulatively, through September 30, 2017, USAC processed 33,624 applications representing over $1.37 billion in obligations to applicants for FY2017. This represents a 22 percent improvement in applications reviewed compared to the same period for FY2016, and a 125 percent increase in dollars obligated compared to the same period for FY2016. As reported last quarter, USAC received over 40,000 FCC Form 471 applications in May, requesting $3.2 billion for FY2017. Through 3Q2017, USAC completed review of 43 percent of dollars requested for FY2017 compared with 17 percent at this time last year for FY2016. Further, USAC completed review of 83 percent of FY2017 applications compared with only 61 percent over the same period for FY2016. The chart below provides an update on FY2017 commitments through 3Q2017 and the table below compares metrics for FY2017 with FY2016. The most recently available

Schools and Libraries Program monthly scorecard is attached for further review (see Attachment A).





Funding Year Comparison	**FY 2017** (as of 9/30/17)	**FY 2016** (as of 9/30/16)
Applications Received	40,486	45,606
Dollars Requested	$ 3.23 billion	$ 3.61 billion
No./Percentage of Forms Completed	33,624 / 83%	27,630 / 61%
Amount/Percentage of Dollars Obligated to Applicants	$ 1.37 billion / 43%	$ 0.61 billion / 17%

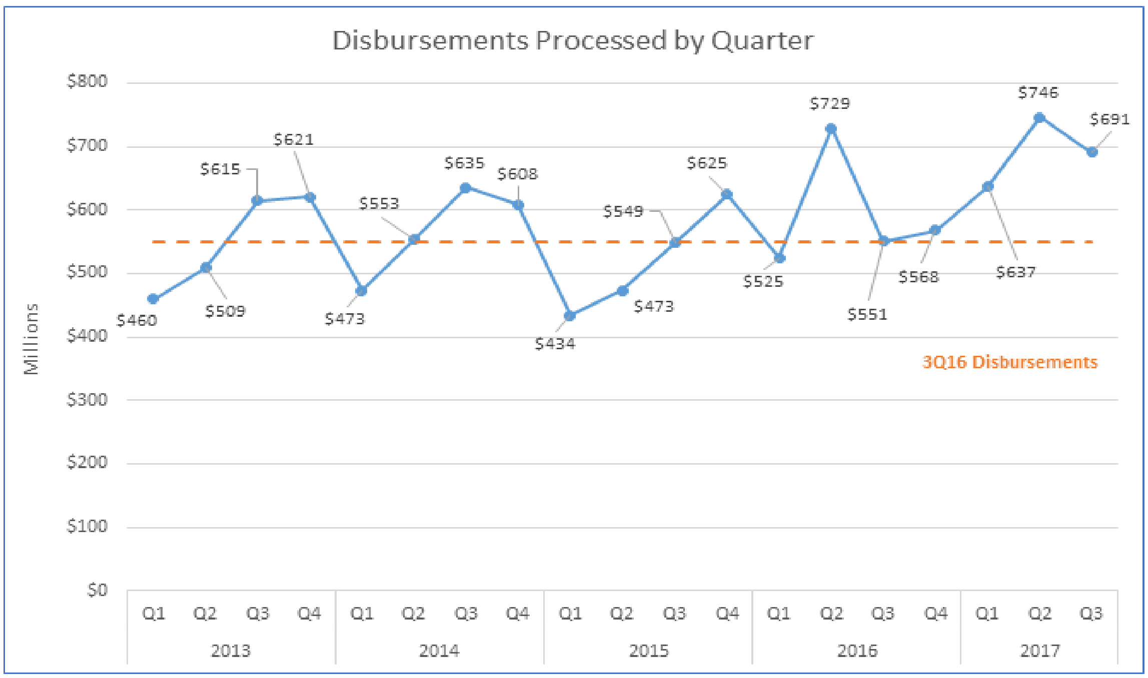
As of September 30, 2017, USAC has reviewed $3.56 billion of the $3.61 billion requested for FY 2016 and USAC has obligated over $2.88 billion to applicants.

Fiber Applications

To increase the velocity of the fiber application review, Schools and Libraries Division (SLD) added additional staff to the Fiber Team in 3Q2017. FY2017 fiber applications totaled 1,328 with requests for $306.22 million, compared with 1,243 fiber applications requesting $215.46 million in FY2016. The first FY2017 fiber applications were funded in July, two months earlier than the first FY2016 fiber applications. Through 3Q2017, 47 percent of FY2017 fiber applications have been reviewed, and approved funding was $30.8 million at quarter's end. Consistent with other FY2017 funding requests, the speed of decision making for fiber applications has improved for FY2017 compared with FY2016.

Invoicing

In 3Q2017 over 128,000 invoice line items were processed and paid in the amount of $690.8 million. The 3Q2017 payment total represents an increase of $135 million over 3Q2016. Further, the average processing time for invoice line items was 8.2 days in 3Q2017 compared to 8.7 days in 2Q2017. In 3Q2017, USAC continued to implement data integrations between EPC and Legacy information technology (IT) systems supporting financial transactions. In addition, SLD conducted a review of its invoicing processes and is developing enhanced procedures to promote better customer service and guidance to further expedite accurate invoice submissions and payments aimed at further reducing participant frustration. The chart below shows quarterly disbursements from 2013 through 3Q2017.



Appeals

USAC issued 945 appeal decisions in 3Q2017 compared with 997 decisions issued in 2Q2017. Quarterly appeals counts rose in 3Q2017 with 768 new appeals received during 3Q2017, which is a 15 percent increase over the 666 received in 2Q2017. This increase is largely due to increased funding decisions made in 3Q2017. As of September 30, 2017, there were 1,100 pending appeals, compared with 946 pending appeals as of June 30, 2017, a 16 percent increase. For the quarter, the average time to issue an appeal decision was 82 days compared to 137 days last quarter, a 40 percent reduction. USAC staff continues to process FY2016 appeals and is aggressively working to reduce the time to issue appeal decisions now that system functionality is operational.

Program Integrity Update

On January 17, 2017, the Commission issued an order clarifying that it would not construe its administrative policy for completing investigations within a five year period in a manner that would impair its ability to fulfill statutory requirements to establish and collect debts.[1] Following the issuance of this order, SLD worked with Commission staff to initiate recovery for matters that were on hold while waiting for additional guidance from the Commission on this issue. Beginning May 5, 2017, SLD started to issue notifications of COMADs and recoveries of improperly disbursed funding (RIDFs) for matters that had been on hold pending FCC clarification regarding its administrative policy for completing investigations within a five year period. In response to USAC's attempts to recover $27.14 million associated with 54 applicants, USAC received multiple appeals. In working with applicants, USAC staff was able to review documentation provided on appeal and approve six appeals, resulting in a cumulative deduction of over $2.25 million of funds subject to recovery. USAC continues its recovery activities while working closely with applicants to determine the potential for new or found documentation that may obviate the need for recovery.

Customer Service

The SLTier 3 team is collaborating more closely with the Program Integrity Assurance team to discuss nascent issues in order to prepare notifications, responses, and solutions supporting proactive customer service. During 3Q2017, 12,894 customer service cases were opened and 12,839 were resolved with over 96 percent resolved within 30 days. In 3Q2017, 1,521 inquiries were escalated to the SL Tier 3 team and they resolved 1,599 cases with over 78% of escalations completed within 30 days. The SL Tier 3 team continues to work with Customer Service Bureau (CSB) to resolve issues more quickly and build the CSB knowledge base enabling more first time issue resolutions and reducing escalations.

Training & Outreach

In 4Q2017, the SLD Training and Outreach team has conducted or will be conducting in-person E-rate training sessions in the following cities:

- October 10, 2017 Applicant Training – Washington, DC Area
- October 24, 2017 Applicant Training – Charlotte, NC
- November 2, 2017 Applicant Training – Minneapolis, MN
- November 14, 2017 Applicant Training – Portland, OR

[1] *Application for Review of a Decision of the Wireline Competition Bureau by Net 56, Inc., et al.*, CC Docket No. 02-6, Memorandum Opinion and Order, 32 FCC Rcd 963 (2017) (*Net 56 Order*).

During the training, participants will have the opportunity to hear directly from members of the SL team on key topics important for successful participation in the program, such as posting for services, filing funding requests, and invoicing.

Category Two Budget Public Notice

In a September 22, 2017 public notice, the FCC requested comments on the sufficiency of budgets for category two (C2) services under the E-rate program. Specifically, the FCC asked for data that shows the C2 services applicants purchased with their budgets and the C2 services they purchased without E-rate support, and the percentage of C2 services purchased that were or will be covered by the budget. The FCC seeks specific, measurable data that the Wireline Competition Bureau can use to analyze trends across different types of applicants or regions, particularly schools that serve students with special education services. Comments are due October 23 and reply comments are due November 7.

Update on Call Center Services Request for Proposal

USAC posted a Request for Proposals (RFP) for call center and customer support services for E-rate program participants on August 18, 2017. USAC sought a new vendor to provide call center support by phone, email, web inquiry and an EPC customer service module to assist applicants and service providers in resolving issues related to their E-rate participation. Responses were due September 21, 2017, and the selected vendor will begin providing call center and customer support services beginning in 2018.

Progress on Completion of the E-Rate Productivity Center (EPC)

IT Systems Update

USAC continues to deploy key new and improved functionality in the EPC system, including an August 25, 2017 post-commitment deployment (Release 17.5). Post-commitment functionality included additional appeals review capabilities, improved FCC Form 500 review capabilities, improved COMAD review capabilities, and improved post-commitment reporting. In addition, applicants, consultants, and service providers can now request Service Provider Identification Number (SPIN) changes and service substitution requests in EPC. In addition to the post-commitment functionality, resources were also focused on resolving known production issues for processes, including the FCC Forms 486 and 500, and appeals.

USAC devoted significant resources to resolving FY2016 and FY2017 applications that were blocked by system issues. The total number of FCC Forms 471 that cannot be reviewed and are blocked by the system is significantly lower than last year, as evidenced by the fact that over 80% of all FY2017 FCC Forms 471 have already received a Funding Commitment Decision Letter (FCDL). USAC also continued to develop FY2017 post-commitment functionality, enabling USAC review and approval of applicant and service provider changes to their service provider and/or their approved services. These features closely mirror those already available for FY 2016, but corrected an underlying flaw in

EPC that limited these post-commitment functions to a single funding year. The features will be available in late October and will support all funding years prospectively. Finally, significant new functionality delivered in 3Q2017 allows USAC to open inquiries into previously committed funds when a funding rescission may be required. To ensure complete adherence to the legal and regulatory requirements, USAC gathered staff from SLD, USAC's Office of General Counsel (OGC), FCC's OGC, and various FCC offices and bureaus to collaborate on rescission letters to ensure the notifications adhere to the required timelines and provide full and complete notice to the affected parties. The final portion of this functionality, including the debt collection, will be delivered by the end of the calendar year.

After significant testing, USAC upgraded the software that supports EPC in September. This update ensures that USAC not only keeps track with the regular software patches and upgrades to reduce vulnerabilities and improve platform performance, but also allows USAC to upgrade to future versions that will include features that can be incorporated into EPC to benefit our end users.

The SL legacy IT systems continue to support invoicing and the Enterprise Data System (EDS) continues to support reporting, analytics, data warehousing and open data needs. This quarter, USAC integrated EPC, EDS, and the invoicing systems to allow applicants and service providers to invoice after receipt of a Revised Funding Commitment Decision Letter (RFCDL) for FY2017. This revised commitment information was also integrated with USAC's public website tools. USAC also updated the linkage between the FCC Form 486 data and our data tools, so that downward revisions to funding are properly reflected in USAC data tools.

USAC plans to complete EPC development by the end of the year and is planning two major releases for the remainder of 2017. These deployments will ensure that the remaining post-commitment functionality is available in EPC and will complete end-to-end capabilities for pre-commitment and post-commitment activities. The existing invoicing system will continue to be used to support invoice review and disbursements as USAC assesses the path forward for legacy systems.

Attachment A

Schools & Libraries Scorecard – August 2017

Aggregated performance is the composite of multiple metrics	G	Y	R	NA
	On-track	At-Risk	Off-track	Future Metri

Performance Measurement Model

PROGRAM OUTCOMES

GOAL #1: Ensure affordable access to high-speed broadband sufficient to support digital learning in schools and robust connectivity for all libraries.

Measurement Category	Target	Status
Broadband Access School Districts: 84% have 100Mbps/1,000 Students	100% of School Districts have 100Mbps/1,000 Students	G
Broadband Access Libraries: 82% report Wi-Fi completely or mostly sufficient	100% of Libraries have completely or mostlysufficient W-Fi Connectivity	G

GOAL #2: Maximize the cost-effectiveness of spending for E-rate supported purchases.

Measurement Category	Target	Status
Internet Access Pricing	Pricing will be analyzed for FY2017 after the window close.	G
Switch and Access Point Pricing		G

GOAL #3: Make the E-rate application process fast, simple, and efficient.

Measurement Category	Target	Status
Meet the FY2017 forecast for FCC Form 471 applications complete	Complete all FY2017 workable FCC Form 471 applications by November 2017	Y

OPERATIONAL MEASURES

PROGRAM INTEGRITY

Comprehensive strategy to prevent fraud, abuse, errors, and waste in the commitment and disbursements

Measurement Category	Target	Status
Defect Rates	< 3%	Y
Audits	Corrective Action Plans Completed in 6 mo.	Y
Improper Payments	< 2%	NA

USER EXPERIENCE

Strengthen and simplify user experience to enable successful participation

Measurement Category	Target	Status
Technology (Sev. 1 issues)	0 Sev. 1 Issues	Y
Complaints	Resolve within 5 bus days	Y

OPERATIONAL EFFECTIVENESS

Continuously improve the efficiency and effectiveness of business processes

Measurement Category	Target	Status
Funding Application Request	Aggregated Performance	G
Invoicing	Aggregated Performance	Y
Efficiency	Aggregated Performance	Y
Appeals	Aggregated Performance	Y
Cycle Time	Aggregated Performance	Y
Customer Service	Aggregated Performance	G