



Schools and Libraries Committee

Audit Briefing Book

Monday, July 29, 2019

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

Universal Service Administrative Company

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

Washington, D.C. 20005

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: April 3, 2019

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Chedar Menachem High School Attachment A	1	<ul style="list-style-type: none"> • <u>Inadequate Competitive Bidding Evaluation.</u> The Beneficiary did not score the bids correctly in the price category during the bid evaluation. 	\$0	\$6,000	\$6,000	\$0	Y
City on a Hill Charter Public School Circuit Street Attachment B	1	<ul style="list-style-type: none"> • <u>Inadequate Competitive Bidding Evaluation.</u> The Beneficiary did not evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor. 	\$55,913	\$5,477	\$5,477	\$5,477	Y
Kemmerer Village, Inc. Attachment C	3	<ul style="list-style-type: none"> • <u>Failure to Comply with CIPA Requirements - Beneficiary Did Not Maintain an Internet Safety Policy.</u> The Beneficiary did not have an Internet Safety Policy. • <u>Beneficiary Submitted Its FCC Form 471 Prior to Executing a Contract or Other Legally Binding Agreement.</u> The Beneficiary signed a contract 	\$34,783	\$176,692**	\$33,102	\$104,727	N

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
		with the service provider after the date the Beneficiary submitted its FCC Form 471.					
The Educational Alliance, Inc. Attachment D	3	<ul style="list-style-type: none"> • <u>Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students.</u> The Beneficiary did not demonstrate that: (a) only eligible Head Start students were identified on its FCC Form 471; (b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and (c) the services requested and committed by SLP were only for eligible students. • <u>Service Provider Over-Invoiced SLP For Amounts Not Reconciled to the Service Provider Bills.</u> The Service Provider, Mass Communications, Inc., invoiced SLP for amounts that do not reconcile to the costs of eligible services billed to the Beneficiary. 	\$72,587	\$120,111**	\$62,924	\$68,554	N
Total	8		\$163,283	\$308,280	\$107,503	\$178,758	

* The Monetary Effect amount represents the actual dollar effect of the finding(s) without taking into account any overlapping exceptions between findings. Thus, the total Monetary Effect may exceed the Amount of Support that was committed and/or disbursed to the Beneficiary.

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



Chedar Menachem High School

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR014

TABLE OF CONTENTS

Executive Summary	1
Audit Results and Commitment Adjustment.....	3
USAC Management Response	4
Purpose, Scope, Background and Procedures.....	5
Detailed Audit Finding.....	7
Finding #1: 47 C.F.R. § 54.511(a) (2015) – Inadequate Competitive Bidding Evaluation ...	7
Criteria	10



EXECUTIVE SUMMARY

October 10, 2018

Harvey Shollar, Administrator
Chedar Menachem High School
150 South Franklin Street
Wilkes-Barre, PA 18701

Dear Mr. Shollar:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Chedar Menachem High School (Beneficiary), Billed Entity Number (BEN) 16068856, using regulations and orders governing the federal Universal Service Schools and Libraries Program, 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 the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

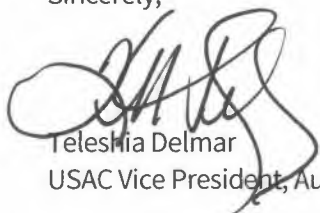
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding (Finding) discussed in the Audit Results and Commitment Adjustment section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Telesha Delmar', written over the printed name.

Telesha Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Catriona Ayer, USAC Acting Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT

Audit Results	Monetary Effect	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.511 (a) (2015) - Inadequate Competitive Bidding Evaluation. The Beneficiary did not score the bids correctly in the price category during the bid evaluation.	\$6,000	\$6,000
Total Net Monetary Effect	\$6,000	\$6,000

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. During the recovery review process, if there are other FRNs that fall under this competitive bidding finding there may be additional recoveries.

USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC offers a webcast to help applicants understand the competitive bidding process available at (https://goto.webcasts.com/starthere.jsp?ei=1203188&tp_key=c4fd271556). USAC also directs the Beneficiary to USAC's website under "Reference Area" for guidance on Competitive Bidding available at (<https://www.usac.org/sl/applicants/step01/default.aspx>). Additional information on E-rate rule compliance is available in the USAC Online Learning Library available at (<https://www.usac.org/sl/about/outreach/online-learning.aspx>).

Further, USAC recommends the Beneficiary 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 Amount	FRN 1699114106
Finding #1	\$6,000

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$50,576	\$0
Voice	\$9,300	\$50
Total	\$59,876	\$50

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

The committed total represents two FCC Form 471 applications with six Funding Request Numbers (FRNs). AAD selected three FRNs,¹ which represent \$56,036 of the funds committed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a religious school located in Wilkes-Barre, PA that serves over 100 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD examined documentation to support its effective use of funding and that adequate controls exist to determine whether funds will be used in accordance with the Rules. AAD used inquiry 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 funding was requested. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

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

¹ The FRNs included in the scope of this audit were: 1699114106, 1699114113, and 1699114154.

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC’s website before signing contracts or executing month-to-month agreements with the selected service providers. AAD evaluated the services requested and purchased for cost effectiveness as well.

C. Beneficiary Location

AAD used inquiry to determine whether the services were located in eligible facilities and utilized in accordance with the Rules. AAD evaluated whether the Beneficiary had the necessary resources to support the services for which funding was requested. AAD also evaluated the services purchased by the Beneficiary for cost effectiveness to determine whether funding will be used in an effective manner.

Finding #1: 47 C.F.R. § 54.511(a) (2015) – Inadequate Competitive Bidding Evaluation

CONDITION

AAD obtained and examined documentation, including the service provider bid in response to the services requested by the Beneficiary and the Beneficiary’s bid evaluation matrices, to determine whether the Beneficiary carefully considered all bids and selected the most cost-effective offering using price of the eligible goods and services as the primary factor for FRN 1699114106. The Beneficiary received and evaluated a bid submitted by Sprint and compared Sprint’s bid to the services and the costs of the services that were being offered by its pre-existing service provider, Verizon. AAD determined that the Beneficiary did not consider price as the primary factor as the Beneficiary included the ineligible costs of purchasing new cellular telephones within the price criterion.

AAD examined the Beneficiary’s bid evaluation matrices and determined that the Beneficiary’s selection criteria included (1) price/charges, (2) fit between request and proposal, (3) prior experience, (4) financial stability, (5) multi-year contracts, (6) voluntary extensions, and (7) composite vendors. The Beneficiary scored the bids as follows, with the highest score representing the best score:

		Sprint		Verizon	
	Total Cost Per Month	\$268.33		\$756.90	
Selection Criteria	Weight	Raw Score	Weighted Score	Raw Score	Weighted Score
Prices/Charges	30%	4	1.2	5	1.5
Fit Between Request and Proposal	25%	5	1.25	5	1.25
Prior Experience	25%	1	0.25	5	1.25
Financial Stability	5%	5	0.25	5	0.25
Multi-Year Contracts	5%	5	0.25	5	0.25
Voluntary Extensions	5%	5	0.25	5	0.25
Composite Vendors	5%	1	0.05	1	0.05
Total	100%	26	3.5	31	4.8

In the Beneficiary’s evaluation matrices, price appears to be the primary factor (price being assigned a weight of 30 percent, while the other factors were assigned a weight of 25 or 5 percent). However, Sprint’s costs of \$268.33 per month were lower than Verizon’s costs of \$756.90 per month; and yet, the Beneficiary awarded

Verizon a superior score in the price criterion even though Verizon's offering was not the lowest cost offering. When the Beneficiary awarded points within the price criterion for each service provider, it considered the additional cost of purchasing new cellular telephones if the Beneficiary selected Sprint to be its service provider.² While the Beneficiary may take other factors into consideration during its bid evaluation, the Beneficiary must use the price of eligible services as the primary factor.³ In this case, the Beneficiary considered the additional costs of purchasing new cellular telephones within the price criterion instead of using only the price of the eligible services within the price criterion.

Further, the Beneficiary must evaluate the actual dollar amount proposed by a bidder.⁴ Because the Beneficiary considered the additional costs of purchasing ineligible items (new cellular telephones) within the price criterion instead of evaluating the actual price of the eligible services within the price criterion, AAD cannot conclude that the Beneficiary conducted an adequate competitive bidding evaluation.

CAUSE

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

EFFECT

The monetary effect of this finding is \$6,000. This amount represents the total funds committed by SLP for FRN 1699114106.

RECOMMENDATION

AAD recommends USAC management issue a downward commitment adjustment to reduce the committed funds to \$0 for FRN 1699114106. The Beneficiary must implement controls and procedures to ensure it carefully considers all bids and selects the most cost-effective service offering using price of eligible goods and services as the primary factor considered. The Beneficiary must not include the additional costs of purchasing cellular telephones or other non-price factors within the price criterion and instead use other criterion in its bid evaluation for this consideration. AAD also recommends the Beneficiary examine the Rules to familiarize itself with the Rules governing the competitive bidding process and selecting the most cost-effective service offering.

² See Beneficiary's *E-rate Bid Assessment Worksheet* attached to email from Richard Bernstein, Consultant for Chedar Menachem High School, to AAD (May 5, 2017).

³ *Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator*, CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, para. 52 (2003) (*Ysleta Order*).

⁴ *Id.*

BENEFICIARY RESPONSE

The point raised by the auditors is moot since even if the price matrix scores is reversed or even reduced the scores of the other factors would still support the school's selection of Verizon.

AAD RESPONSE

In its response, the Beneficiary states that “the point raised by the auditors is moot” because Verizon would still be the most cost-effective solution according to the Beneficiary’s criteria, even if the price criterion scores were adjusted. AAD does not concur with the Beneficiary’s statement. The FCC clarified that “although [a beneficiary] argues that the contract awards would have been the same if the price of the ineligible items had been exclude from the [cost] criterion, that alone does not demonstrate compliance with the applicable rule...”⁵ Therefore, AAD concludes that the Beneficiary did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor.⁶ As noted in the Condition section above, the Beneficiary included the cost of ineligible equipment within the price criterion during the bid evaluation. For this reason, AAD’s position on this Finding remains unchanged.

⁵ *Spokane Order*, para. 4.

⁶ *Ysleta Order*, para. 52.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.511(a) (2015).	Except as exempted in §54.503(e), in selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.
#1	<i>Requests for Review by Spokane School District 81 of Decisions of the Universal Service Administrator, CC Docket No. 02-6, Order, 28 FCC Rcd. 6026, 6028, para. 4 (2013) (Spokane Order).</i>	Although applicants may consider factors other than the pre-discount prices of eligible services when determining whether a particular offering is the most cost-effective, applicants must use the price of eligible services as the primary factor when selecting the winning offer for E-rate supported services ... Additionally, although Spokane argues that the contract awards would have been the same if the price of the ineligible items had been excluded from the “capital and life cycle cost” criterion, that alone does not demonstrate compliance with the applicable rule; nor does Spokane provide evidence to support that assertion.
#1	<i>Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator, CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, para. 52 (2003) (Ysleta Order).</i>	[T]he prices relevant for our competitive bidding requirements are those of eligible services ... [and] our past decisions require that actual price be considered in conjunction with these non-price factors to ensure that any consideration between price and technical excellence or other factors are reasonable. As noted above, the Commission stated in the Tennessee Order that it “certainly expect[s] that schools will evaluate the actual dollar amount proposed by a bidder...” for eligible services during the bidding process.



Universal Service
Administrative Co.

City on a Hill Charter Public School Circuit Street

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR070

TABLE OF CONTENTS

Executive Summary 1

Audit Results and Commitment Adjustment/Recovery Action 3

USAC Management Response 3

Purpose, Scope, Background and Procedures 4

Detailed Audit Findings 6

Finding #1: 47 C.F.R. § 54.511(a) – Inadequate Competitive Bidding Evaluation 6

Criteria 9



EXECUTIVE SUMMARY

November 15, 2018

Ms. Sally Bachofer, Executive Director
City on a Hill Charter Public School Circuit Street
58 Circuit Street
Roxbury, MA 02119

Dear Ms. Bachofer:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of City on a Hill Charter Public School Circuit Street (Beneficiary), Billed Entity Number (BEN) 1596 using the regulations and orders governing the federal Universal Service Schools and Libraries Program, 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 the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, physical inventory of equipment purchased and maintained, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

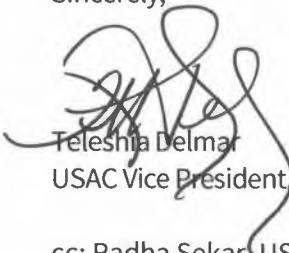
Based on the test work performed, our examination disclosed one detailed audit finding (Finding) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

sufficiency of those procedures for their purposes. This report is not confidential and may be released to a requesting third party.

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

Sincerely,



Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Catriona Ayer, USAC Acting Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.511(a) - Inadequate Competitive Bidding Evaluation. The Beneficiary did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor.	\$5,477	\$5,477	\$5,477
Total Net Monetary Effect	\$5,477	\$5,477	\$5,477

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. During the recovery review process, if there are other FRNs that fall under this finding there may be additional recoveries.

USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC offers a webcast to help applicants understand the competitive bidding process available at (https://goto.webcasts.com/starthere.jsp?ei=1203188&tp_key=c4fd271556). Additional information about competitive bidding is available in the presentations entitled “E-rate Filing Process – Pre-commitment to Commitment” and “Advanced Program Compliance” available at (<https://www.usac.org/sl/about/outreach/2018-training.aspx>). USAC also directs the Beneficiary to USAC’s website under “Reference Area” for comprehensive information on Competitive Bidding available at (<https://www.usac.org/sl/applicants/step01/default.aspx>).

Further, USAC recommends the Beneficiary subscribe to USAC’s weekly News Brief which provides program participants with valuable information about E-rate rule compliance. 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
1699050964	\$5,477

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$37,357	\$31,130
Internet Access	\$44,496	\$17,973
Voice	\$16,520	\$6,810
Total	\$98,373	\$55,913

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

The committed total represents two FCC Form 471 applications with nine Funding Request Numbers (FRNs). AAD selected four FRNs,¹ which represent \$78,756 of the funds committed and \$49,203 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a public charter school located in Roxbury, Massachusetts that serves over 290 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD examined documentation to support its effective use of funding and that adequate controls exist to determine whether funds were used in accordance with the Rules. AAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive funds. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

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

¹ The FRNs included in the scope of this audit were 1699050804, 1699050827, 1699050904, and 1699050964.

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC’s website before signing contracts or executing month-to-month agreements with the selected service providers. AAD evaluated the equipment and services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

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

CONDITION

AAD obtained and examined documentation, including the service provider bids responding to the requested services and the Beneficiary’s bid evaluation matrices, to determine whether the Beneficiary carefully considered all bids and selected the most cost-effective offering using price of the eligible goods and services as the primary factor for FRN 1699050964. The Beneficiary received and evaluated bid proposals submitted by CPU Sales and Services (CPU) and Secure Designs, Inc. (Secure Designs) for the Category 2 firewall equipment requested for FRN 1699050964.

AAD examined the Beneficiary’s bid matrices and determined that the Beneficiary’s selection criteria included (1) eligible prices/charges, (2) understanding of needs, (3) prior experience, (4) ineligible cost factors, (5) financial stability, and (5) local vendor. The Beneficiary scored the bids as follows, with the highest score representing the best score:

Selection Criteria	Maximum Points Available	CPU	Secure Designs
Eligible Prices/Charges	30	25	10
Understanding of Needs	15	15	5
Prior Experience	15	15	1
Ineligible Cost Factors	15	15	5
Financial Stability	15	15	1
Local Vendor	10	10	1
Total		95	23

Although price appears to be the primary factor (price being assigned 30 points, while the other factors were assigned 10 or 15 points), the selected service provider, CPU, did not submit the lowest cost bid but was awarded the most favorable score in the price criterion on the Beneficiary’s bid evaluation matrix. CPU’s quote of \$6,443 (\$1,757 for the firewall equipment + \$4,686 for the five year license) was higher than Secure Designs’s quote of \$4,256 for the firewall equipment, which included a three year license. Even when normalizing CPU’s quote for the license over three years to compare to the Secure Designs quote, CPU’s quote of \$4,569 ($\$1,757 + (\$4,686 / 5 * 3)$) is still higher than Secure Designs’ quote of \$4,256.

CPU’s awarded score for price should not be higher than Secure Designs’ score for price, which would reduce CPU’s total score. CPU was awarded superior scores in the non-price criteria and the Beneficiary believes CPU was still the most cost-effective solution according to the Beneficiary’s criteria, even if the price criterion scores were adjusted. However, the FCC clarified that “although [a beneficiary] argues that the contract awards would have been the same..., that alone does not demonstrate compliance with the applicable

rule....”² Therefore, AAD concludes that the Beneficiary did not comply with the Rules that require the Beneficiary to evaluate the actual dollar amount proposed for eligible services to select the most cost-effective service offering using price of eligible services as the primary factor.³

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules regarding the competitive bidding process and selecting the most cost-effective service offering using price of the eligible goods and services as the primary factor. The Beneficiary did not review the Rules in detail, including the relevant Rules that provided clarification on the competitive bidding requirements and selecting the most cost-effective service offering using price of the eligible goods and services as the primary factor.

EFFECT

The monetary effect of this finding is \$5,477. This amount represents the total funds committed and disbursed by SLP for the firewall equipment for FRN 1699050964.

RECOMMENDATION

AAD recommends USAC management seek recovery of \$5,477 and issue a downward commitment adjustment to reduce to committed funds to \$29,059 for FRN 1699050964. The Beneficiary must implement controls and procedures to ensure it carefully considers all bids and selects the most cost-effective service offering using price of eligible goods and services as the primary factor considered, as required by the Rules. AAD also recommends the Beneficiary examine the Rules to familiarize itself with the Rules governing the competitive bidding process and selecting the most cost-effective service offering. In addition, AAD recommends the Beneficiary take advantage of the various outreach efforts provided by SLP, including the annual Fall Applicant training, webinars, newsletters, etc. The Beneficiary can learn more about SLP’s outreach on USAC’s website at <http://www.usac.org/sl/about/outreach/default.aspx>.

BENEFICIARY RESPONSE

All costs were evaluated over a 5-year span, thus CPU was considered the lowest bid.

Secure Designs: \$4,255.52 includes 3yr license

$\$4,255.52 / 3 = \$1,418.51$ per year

$\$1,418.51$ per year x 5yr = \$7,092.55

CPU: \$1,757.25 (equipment) + \$4,686.03 (5yr license) = \$6,443.28

Therefore, CPU’s price bid was deemed more favorable than Secure Designs’ and rated a higher score for price.

In addition, CPU’s scores on all other criteria (e.g. understanding of needs, prior experience, financial stability, local vendor, ineligible cost factors) were rated much higher than Secure Designs’.

Hypothetically speaking, even if Secure Designs had a higher score on price than CPU, other criteria [*sic*] combined would still make CPU the most preferred vendor for City on a Hill.

AAD RESPONSE

In its response, the Beneficiary stated “[a]ll costs were evaluated over a 5-year span, thus CPU was considered the lowest bid.” However, the Beneficiary did not have sufficient information to evaluate all bids over a five-

² *Spokane Order*, 28 FCC Rcd at 6028, para. 4.

³ *Ysleta Order*, 18 FCC Rcd at 26430-31, para. 52.

year span. Specifically, Secure Designs, Inc.'s bid did not provide an allocation of cost between the firewall equipment and the three-year license. To determine a five-year projected cost, the Beneficiary would have had to determine the one-time cost of equipment and normalize the separate cost of the license over five years. Therefore, it would have been more appropriate to normalize both bids over three years because CPU Sales & Service, Inc.'s bid provided the one-time cost for the firewall equipment and a separate cost for the five-year license. As identified in the Condition of this finding, Secure Designs, Inc. submitted the cheaper bid after the bids are normalized over three years.

In addition, the Beneficiary stated in its response that "even if Secure Designs had a higher score on price than CPU, other criteria [sic] combined would still make CPU the most preferred vendor for City on a Hill." AAD does not dispute that this may have been a possible outcome. However, in accordance with the Rules, "applicants must use the price of eligible services as the primary factor when selecting the winning offer for E-rate supported services... [and arguing] that the contract awards would have been the same... does not demonstrate compliance with the applicable rule..." AAD does not have authority to waive the Rules.

For the reasons above, AAD's position on this finding remains unchanged.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.511(a)	In selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers but price should be the primary factor considered.
#1	<i>Requests for Review by Spokane School District 81 of Decisions of the Universal Service Administrator, CC Docket No. 02-6, Order, 28 FCC Rcd. 6026, 6028, para. 4 (2013) (Spokane Order)</i>	Although applicants may consider factors other than the pre-discount prices of eligible services when determining whether a particular offering is the most cost-effective, applicants must use the price of eligible services as the primary factor when selecting the winning offer for E-rate supported services.... Additionally, although Spokane argues that the contract awards would have been the same if the price of the ineligible items had been excluded from the “capital and life cycle cost” criterion, that alone does not demonstrate compliance with the applicable rule; nor does Spokane provide evidence to support that assertion.
#1	<i>Request for Review by Ysleta Independent School District of the Decision of the Universal Service Administrator, CC Docket Nos. 96-45, 97-21, Order, 18 FCC Rcd. 26407, 26430-31, para. 52 (2003) (Ysleta Order)</i>	[T]he prices relevant for our competitive bidding requirements are those of eligible services... [and] our past decisions require that actual price be considered in conjunction with these non-price factors to ensure that any consideration between price and technical excellence or other factors are reasonable. As noted above, the Commission stated in the Tennessee Order that it “certainly expect[s] that schools will evaluate the actual dollar amount proposed by a bidder...” for eligible services during the bidding process.



Universal Service
Administrative Co.

Kemmerer Village, Inc.

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR073

TABLE OF CONTENTS

Executive Summary.....	1
Audit Results and Commitment Adjustment/Recovery Action.....	3
USAC Management Response.....	4
Purpose, Scope, Background and Procedures.....	5
Detailed Audit Findings.....	7
Finding #1: 47 C.F.R. § 54.520(c)(1) - Failure to Comply with CIPA Requirements - Beneficiary Did Not Maintain an Internet Safety Policy.....	7
Finding #2: 47 C.F.R. § 54.504(a) - Beneficiary Submitted Its FCC Form 471 Prior to Executing a Contract or Other Legally Binding Agreement.....	8
Finding #3: 47 C.F.R. § 54.520(h) – Failure to Comply with CIPA Requirements - Lack of Public Hearing or Meeting & Lack of Public Notice.....	9
Criteria.....	11



EXECUTIVE SUMMARY

November 16, 2018

Mr. Ron Little, Executive Director
Kemmerer Village, Inc.
941 North 2500 East Road
Assumption, IL 62510

Dear Mr. Little:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Kemmerer Village, Inc. (Beneficiary), Billed Entity Number (BEN) 72977, using the regulations and orders governing the federal Universal Service Schools and Libraries Program, 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 the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed three detailed audit findings (Findings) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Telesha Delmar', written over a faint, illegible typed name.

Telesha Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Catriona Ayer, USAC Acting Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Recovery or Commitment Adjustment ¹ (B)	Recommended Recovery	Recommended Commitment Adjustment (A) - (B)
Finding #1: 47 C.F.R. § 54.520(c)(1) - Failure to Comply with CIPA Requirements - Beneficiary Did Not Maintain an Internet Safety Policy. The Beneficiary did not have an Internet Safety Policy in accordance with the Rules.	\$88,527	\$0	\$19,114	\$88,527
Finding #2: 47 C.F.R. § 54.504(a) - Beneficiary Submitted Its FCC Form 471 Prior to Executing a Contract or Other Legally Binding Agreement. The Beneficiary signed a contract with the service provider after the date the Beneficiary submitted its FCC Form 471.	\$88,165	\$71,965	\$13,988	\$16,200
Finding #3: 47 C.F.R. § 54.520(h) - Failure to Comply with CIPA Requirements - Lack of Public Hearing or Meeting & Lack of Public Notice. The Beneficiary did not provide documentation demonstrating that a public meeting or hearing was held to discuss the ISP and provided reasonable public notice for the public meeting or hearing.	\$0	\$0	\$0	\$0
Total Net Monetary Effect	\$176,692	\$71,965	\$33,102	\$104,727

¹ If a finding is subsequently waived via appeal, any overlapping recovery with that finding will be recovered with the remaining findings.

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. During the recovery review process, if there are other FRNs that fall under these findings there may be additional recoveries.

USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC offers a webcast to help applicants understand compliance with the Children’s Internet Protection Act (CIPA) available at (https://goto.webcasts.com/starthere.jsp?ei=1190671&tp_key=2f47022845). USAC also directs the Beneficiary to USAC’s website under “Reference Area” for guidance on CIPA available at (<https://www.usac.org/sl/applicants/step05/cipa.aspx>). USAC also provides a News Brief with helpful information about CIPA requirements available at (<https://www.usac.org/sl/tools/news-briefs/preview.aspx?id=831>).

In addition, USAC offers a webcast to help applicants understand the competitive bidding process and contract requirements available at (https://goto.webcasts.com/starthere.jsp?ei=1203188&tp_key=c4fd271556). USAC also directs the Beneficiary to USAC’s website under “Reference Area” for helpful information on Competitive Bidding available at (<https://www.usac.org/sl/applicants/step01/default.aspx>) and Contracts available at (<https://www.usac.org/sl/applicants/step02/contracts.aspx>). Additional information about competitive bidding and contract requirements is available in the presentation entitled “E-rate Filing Process – Pre-commitment to Commitment” available at (<https://www.usac.org/sl/about/outreach/2018-training.aspx>).

Further, USAC recommends the Beneficiary 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	Commitment Adjustment Amount
1699101503	\$5,760	\$2,880
1699086856	\$0	\$1,442
1699104973	\$2,311	\$4,169
1699104980	\$11,043	\$60,922
1699057227	\$13,988	\$2,212
Total	\$33,102	\$71,625

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$1,442	\$0
Internet Access	\$87,085	\$19,114
Voice	\$19,200	\$15,669
Total	\$107,727	\$34,783

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

The committed total represents three FCC Form 471 applications with seven Funding Request Numbers (FRNs). AAD selected three FRNs,² which represent \$96,805 of the funds committed and \$30,791 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a child care agency that operates a private school to provide regular and Special Education programs for children with educational and behavioral disabilities located in Assumption, Illinois and serves approximately 45 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD examined documentation to support its effective use of funding and that adequate controls exist to determine whether SLP funds were used in accordance with the Rules. AAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive SLP funds. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

AAD obtained and examined documentation to determine whether the Beneficiary complied with the Schools and Libraries Program Children's Internet Protection Act (CIPA) requirements. Specifically, AAD

² The FRNs included in the scope of this audit were 1699057227, 1699101503, and 1699104980.

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

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether the Beneficiary properly selected a service provider that provided eligible services and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. AAD examined the service provider contracts to determine whether they were properly executed. AAD evaluated the services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.520(c)(1) - Failure to Comply with CIPA Requirements - Beneficiary Did Not Maintain an Internet Safety Policy

CONDITION

AAD examined documentation to determine whether the Beneficiary complied with the Children’s Internet Protection Act (CIPA) requirements for FRNs 1699101503, 1699086856, 1699104973, and 1699104980. In its responses to AAD’s *Process Interview Questionnaire*, the Beneficiary responded that it did not have an Internet Safety Policy (ISP) effective for Funding Year 2016. However, in an effort to demonstrate compliance, the Beneficiary provided its *Information Technology Security Procedure* (IT Security Procedure) document. AAD examined the IT Security Procedure and noted that it established procedures to “maintain security requirements necessary to protect information, network resources, and promote security awareness amongst the employees of Kemmerer Village,” but is not an ISP in accordance with the Rules. Specifically, the policy did not address any of the ISP elements required by the Rules that require the Beneficiary to have a formal policy to protect against Internet access by adults and minors to visual depictions that are obscene, child pornography, or harmful to minors; to monitor the online activity of minors; and to educate minors about appropriate online behavior.³

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing CIPA compliance and the requirements to maintain an Internet Safety Policy. The Beneficiary has a limited number of administrative staff and, although the Beneficiary utilizes a consultant for its SLP application and pre-commitment processes, the Beneficiary does not have a designated employee to maintain a thorough knowledge of the Rules to ensure complete compliance throughout the SLP process.

EFFECT

The monetary effect of this finding is \$88,527. This amount represents the total funds committed by SLP for FRNs 1699101503, 1699086856, 1699104973, and 1699104980.

RECOMMENDATION

AAD recommends USAC management seek recovery of \$19,114. In addition, AAD recommends USAC management issue a downward commitment adjustment for \$88,527. The Beneficiary must implement an Internet Safety Policy. In addition, AAD recommends the Beneficiary visit USAC’s website at <https://www.usac.org/sl/applicants/step05/cipa.aspx> to become familiar with the Rules governing the CIPA requirements and ensure it has designated personnel on staff knowledgeable of the Rules to monitor compliance with the Rules.

BENEFICIARY RESPONSE

Kemmerer Village will augment its current IT Security Policies and Procedures to include an Internet Safety Policy that is in compliance with USAC Rules. The ISP will be distributed and discussed with employees of

³ 47 C.F.R. § 54.520(c)(1)(i), (ii) (2015).

Kemmerer Village, its students and provided to new students and their guardians at the time of admission to Kemmerer Village's program, effective 12/15/18.

Finding #2: 47 C.F.R. § 54.504(a) - Beneficiary Submitted Its FCC Form 471 Prior to Executing a Contract or Other Legally Binding Agreement

CONDITION

AAD examined documentation to determine whether the competitive bidding process undertaken to select a service provider for FRNs 1699057227 and 1699104980 complied with the Rules. AAD examined the contracts executed between the service provider, Consolidated Communications Enterprise Services, Inc., and the Beneficiary to determine whether the contracts or other legally binding agreements were in place prior to submission of the Beneficiary's FCC Form 471. The Beneficiary submitted its FCC Form 471 on May 18, 2016. The Beneficiary signed a contract for both FRNs with the service provider on September 13, 2016, which was after the date the Beneficiary submitted its FCC Form 471. The Beneficiary did not provide any other evidence that a legally binding agreement, such as a written acceptance by the Beneficiary of a written offer (e.g., proposals, bids, quotes, etc.) from the service provider, was in place when it submitted the FCC Form 471.⁴

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing the execution of a contract prior to submitting its FCC Form 471. The Beneficiary believed it had a verbal contract in place at the time it informed the service provider of its decision to award services to the service provider but did not sign its contract with the service provider until after the FCC Form 471 was submitted. As established in the Rules, a verbal offer and/or acceptance will not be considered evidence of the existence of a legally binding agreement.⁵

EFFECT

The monetary effect of this finding is \$88,165. This amount represents the total amounts committed of \$16,200 for FRN 1699057227 and \$71,965 for FRN 1699104980.

RECOMMENDATION

AAD recommends USAC management seek recovery of \$25,031. In addition, AAD recommends USAC management issue a downward commitment adjustment for \$88,165. The Beneficiary must implement policies and procedures to ensure it complies with all competitive bidding requirements, including executing a contract or other legally binding agreement prior to submitting its FCC Form 471 to USAC. In addition, AAD recommends the Beneficiary take advantage of the various outreach efforts provided by SLP, including the annual Fall Applicant training, webinars, newsletters, etc. The Beneficiary can learn more about the Rules governing selecting service providers and submitted the FCC Form 471 on USAC's website at <http://www.usac.org/sl/applicants/step02/default.aspx>.

BENEFICIARY RESPONSE

⁴ See *E-rate Modernization Order*, para. 204.

⁵ *Id.*

Kemmerer Village administration will develop policies and procedures designed to ensure future compliance with USAC rules regarding competitive bidding and execution of contracts with services providers prior to submitting its FCC Form 471 to USAC. These policies and procedures will be developed by 1/31/19.

Finding #3: 47 C.F.R. § 54.520(h) – Failure to Comply with CIPA Requirements - Lack of Public Hearing or Meeting & Lack of Public Notice

CONDITION

IAD requested documentation to determine whether the Beneficiary complied with the Children’s Internet Protection Act (CIPA) requirements for FRNs 1699101503, 1699086856, 1699104973, and 1699104980. The Beneficiary did not provide sufficient documentation demonstrating that a public meeting or hearing was held to discuss the Internet Safety Policy and did not have sufficient evidence that reasonable public notice was provided for a public meeting or hearing.⁶ The Beneficiary informed AAD that it “would provide the meeting minutes” to substantiate that a public meeting or hearing was held to discuss the ISP.⁷ However, the Beneficiary did not provide documentation demonstrating that the meeting occurred. The Beneficiary also informed AAD that it is a “non-public school, so it did not do a public notice.”⁸ Although it may not be a public school, as clarified on USAC’s website, “[f]or private schools, public notice means notice to their appropriate constituent group.”⁹

AAD is required to conduct its audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), which require AAD to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.¹⁰ Because the Beneficiary did not provide documentation demonstrating that a public meeting or hearing was held to discuss the ISP and provided reasonable public notice for the public meeting or hearing, AAD is unable to conclude that the Beneficiary was technically compliant with all of the CIPA requirements. However, because the Beneficiary had a filter to monitor Internet content, the Beneficiary was in compliance with the spirit of the CIPA requirements.¹¹

CAUSE

The Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records that demonstrate CIPA compliance were properly retained. In addition, the Beneficiary did not demonstrate sufficient knowledge of the Rules governing the Children’s Internet Protection Act (CIPA). The Beneficiary has limited administrative staff and does not have an individual, other than its consultant, designated to stay abreast of the Rules and ensure complete compliance.

⁶ 47 C.F.R. § 54.516(a)(1) (2015).

⁷ See email from Ron Little, Executive Director, Kemmerer Village, to AAD (Jan. 30, 2018).

⁸ See email from Ron Little, Executive Director, Kemmerer Village, to AAD (Jan. 30, 2018).

⁹ See USAC’s website at <https://www.usac.org/sl/applicants/step05/cipa.aspx>.

¹⁰ 47 C.F.R. § 54.702(n) (2015). See also U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, ¶ 6.56 (Rev. Dec. 2011) (“Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.”).

¹¹ See Letter from Dana R. Shaffer, Chief, Wireline Competition Bureau to Scott Barash, Acting Chief Executive Officer, USAC, WC Docket No. 02-6, 24 FCC Rcd. 417 (Jan. 16, 2009).

EFFECT

There is no monetary effect associated with this finding. While the Beneficiary may not have been in technical compliance with all of the CIPA requirements for FRNs 1699101503, 1699086856, 1699104973, and 1699104980, the Beneficiary substantially complied with the spirit of the CIPA requirements.

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure it complies with the CIPA requirements and that it retains adequate records related to the application for, receipt, and delivery of discounted telecommunications and other supported services as required by the Rules. The Beneficiary must cure this CIPA violation within six months following receipt of the audit report by providing reasonable public notice and holding a public meeting or hearing to address its ISP as required by the Rules. Further, AAD recommends the Beneficiary visit USAC's website at www.usac.org/sl/about/outreach/default.aspx to become familiar with the training and outreach available from SLP.

BENEFICIARY RESPONSE

As a private school, Kemmerer Village will provide all current students and guardians of current students with its Internet Safety Policy document by 12/15/18. Additionally, all new students and their guardians will be given a copy of Kemmerer's ISP at the time of admission, with an opportunity to discuss its contents.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.520(c)(1) (2015)	The billed entity for a school that receives discounts for Internet access or internal connections must certify on FCC Form 486 that an Internet safety policy is being enforced.
#1	47 C.F.R. § 54.520(c)(1)(i) (2015)	The Internet safety policy adopted and enforced pursuant to 47 U.S.C. 254(h) must include a technology protection measure that protects against Internet access by both adults and minors to visual depictions that are obscene, child pornography, or, with respect to use of the computers by minors, harmful to minors.... This Internet safety policy must also include monitoring the online activities of minors. Beginning July 1, 2012, schools' Internet safety policies must provide for educating minors about appropriate online behavior, including interacting with other individuals on social networking Web sites and in chat rooms and cyberbullying awareness and response.
#1	47 C.F.R. § 54.520(c)(1)(ii) (2015)	The Internet safety policy adopted and enforced pursuant to 47 U.S.C. 254(l) must address all of the following issues: (A) Access by minors to inappropriate matter on the Internet and World Wide Web, (B) The safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications, (C) Unauthorized access, including so-called "hacking," and other unlawful activities by minors online; (D) Unauthorized disclosure, use, and dissemination of personal information regarding minors; and (E) Measures designed to restrict minors' access to materials harmful to minors.
#2	47 C.F.R. § 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 entering into a signed contract or other legally binding agreement for eligible services, submit a completed FCC Form 471 to the Administrator.
#2	<i>In the Matter of Modernizing the E-rate Program for Schools and Libraries</i> , WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd. 8870, FCC 14-99, para. 204 (2014) (<i>E-rate Modernization Order</i>)	Applicants and service providers should understand that, although no longer required, a signed contract will constitute the best evidence that a legally binding agreement exists. Absent the existence of a signed contract, in determining whether a legally binding agreement is in place, we direct USAC to consider the existence of a written offer from the service provider containing all the material terms and conditions and a written acceptance of that offer as evidence of the existence of a legally binding agreement. For example, a bid for the services that includes all material terms and conditions provided in response to an FCC Form 470 would be sufficient evidence of an offer and an email from the applicant telling the service provider the bid was selected would suffice as evidence of acceptance. In addition, after a commitment of funding, an applicant's receipt of services consistent with the offer and with the applicant's request for E-rate support will also constitute evidence of the existence of a sufficient offer and acceptance. A verbal offer

		and/or acceptance will not be considered evidence of the existence of a legally binding agreement.
#3	47 C.F.R. § 54.520(h) (2015)	A school or library shall provide reasonable public notice and hold at least one public hearing or meeting to address the proposed Internet safety policy.
#3	47 C.F.R. § 54.516(a)(1) (2015)	Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well.
#3	47 C.F.R. § 54.702(n) (2015)	When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards.



Universal Service
Administrative Co.

The Educational Alliance, Inc.

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR076

TABLE OF CONTENTS

Executive Summary	1
Audit Results and Commitment Adjustment/Recovery Action	3
USAC Management Response	4
Purpose, Scope, Background and Procedures	6
Detailed Audit Findings	8
Finding #1: 47 C.F.R. § 54.501(a)(1) – Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students	8
Finding #2: <i>FCC Form 474 User Guide</i> , at 4 - Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills.	11
Finding #3: 47 C.F.R. § 54.505(b)(4) – Beneficiary Did Not Include All Locations on FCC Form 471	15
Criteria	17



EXECUTIVE SUMMARY

April 3, 2019

Mr. Alan van Capelle, President and CEO
The Educational Alliance, Inc.
197 East Broadway
New York, NY 10002

Dear Mr. Capelle:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of The Educational Alliance, Inc. (Beneficiary), Billed Entity Number (BEN) 16050376 , using the regulations and orders governing the federal Universal Service Schools and Libraries Program, 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 the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

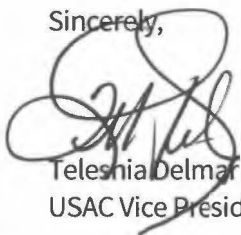
AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed three detailed audit findings (Findings) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Telesnia Delmar', written over a faint circular stamp or watermark.

Telesnia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Catriona Ayer, USAC Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect (A)	Overlapping Recovery¹ (B)	Recommended Recovery (A) - (B)	Recommended Commitment Adjustment
<p>Finding #1: 47 C.F.R. § 54.501(a)(1) – Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students. The Beneficiary did not demonstrate that a) only eligible Head Start students were identified in its FCC Form 471; b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and c) the services requested and committed by SLP were only for eligible students.</p>	\$68,554	\$0	\$35,320	\$68,554
<p>Finding #2: FCC Form 474 User Guide, at 4 – Service Provider Over-Invoiced SLP For Amounts Not Reconciled to the Service Provider Bills. The Service Provider, Mass Communications, Inc., invoiced SLP for amounts that do not reconcile to the costs of eligible services billed to the Beneficiary.</p>	\$51,557	\$23,953	\$27,604	\$0
<p>Finding #3: 47 C.F.R. § 54.505(b)(4) – Beneficiary Did Not Include All Locations on FCC Form 471. School districts must calculate its discount rates based on the district-wide discounts of all member schools; however, one of the Beneficiary’s locations was not included in the Beneficiary’s discount calculation in its FCC Form 471.</p>	\$0	\$0	\$0	\$0
Total Net Monetary Effect	\$120,111	\$23,953	\$62,924	\$68,554

¹ If a finding is subsequently waived via appeal, any overlapping recovery with that finding will be recovered with the remaining findings.

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery and commitment adjustment amounts. During the recovery review process, if there are other FRNs that fall under these findings there may be additional recoveries or adjustments.

USAC will request that the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified. USAC also offers a webcast to help applicants understand Program eligibility rules and how to calculate E-rate discounts available at (https://goto.webcasts.com/viewer/event.jsp?ei=1201348&tp_key=6792beec37) and for applicants and service providers on how to navigate the Invoicing process available at (<https://register.gotowebinar.com/register/8853081102717051650>).

Additional information about eligibility requirements and calculating E-rate discounts is available in the presentation entitled “Basic Concepts” available at (<https://www.usac.org/sl/about/outreach/2018-training.aspx>). Information about invoicing for service providers is available in the presentations entitled “Introduction to Invoicing” and “Advanced Invoicing” at the same link. Information about invoicing for applicants is available in the presentation entitled “Navigating the E-rate Invoicing Process”.

USAC also directs the Beneficiary and Service Provider to USAC’s website under “Reference Area” for eligibility information available at (<https://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx>), the invoicing process available at (<https://www.usac.org/sl/service-providers/step05/default.aspx>), and calculating E-rate discounts available at (<https://www.usac.org/sl/applicants/step03/discounts.aspx>).

Further, USAC recommends the Beneficiary and Service Provider subscribe to USAC’s weekly News Brief which provides program participants with valuable information about E-rate rule compliance. 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	Commitment Adjustment Amount
1699077432	\$41,518	\$19,067
1699077447	\$10,039	\$4,886
1699077453		\$198
1699077458		\$2,859
1699077460	\$8,595	\$13,860
1699118599	\$2,772	\$2,772
1699146361		\$85
1699146365		\$22,988
1699146392		\$1,839
Total	\$62,924	\$68,554

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$49,034	\$0
Internet Access	\$136,080	\$57,780
Voice	\$82,402	\$14,807
Total	\$267,516	\$72,587²

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

The committed total represents two FCC Form 471 applications with 13 Funding Request Numbers (FRNs). AAD selected five FRNs,³ which represent \$177,070 of the funds committed and \$72,587 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is an organization that offers individuals and families multi-generational programs and services to enhance their well-being and socioeconomic opportunities focusing on a mix of education, health and wellness, arts and culture, and civic engagement located in New York, New York that serves over 380 students in its Head Start Program.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD examined documentation to support its effective use of funding and that adequate controls exist to determine whether SLP funds were used in accordance with the Rules. AAD used inquiry and direct observation to determine whether the Beneficiary was eligible to receive SLP

² Subsequent to the date of the commencement of the audit, SLP disbursed additional funds, which AAD considered when determining the monetary effect of the Findings. The monetary effect of the Findings includes amounts disbursed as of the date of this audit report.

³ The FRNs included in the scope of this audit were: 1699077432, 1699077447, 1699118652, 1699091373 and 1699092288.

funds. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether the Beneficiary properly selected a service provider that provided eligible services and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts or executing month-to-month agreements with the selected service providers. AAD examined the service provider contracts to determine whether they were properly executed. AAD evaluated the services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDINGS

Finding #1: 47 C.F.R. § 54.501(a)(1) – Beneficiary Did Not Allocate Services Requested Between Eligible and Ineligible Students

CONDITION

AAD requested and examined documentation, including the Beneficiary’s FCC Form 471 and student enrollment data, to determine whether the students listed on the Beneficiary’s FCC Form 471 were eligible to receive SLP support for FRNs 1699077432, 1699077447, 1699077453, 1699077458, 1699077460, 1699118599, 1699146361, 1699146365, and 1699146392. The Beneficiary is identified as a private school district in its FCC Form 471 and provides Head Start programs. As indicated in the *Eligibility Table for Non-Traditional Education* on USAC’s website, “Head Start services for children less than three years old are not eligible for discounts and must be cost allocated, unless otherwise noted.”⁴

AAD conducted a site visit to the Beneficiary’s locations and observed the Beneficiary’s Head Start program and identified children less than three years old. In its FCC Form 471, the Beneficiary listed 424 students enrolled. To substantiate its enrollment, the Beneficiary provided an Excel spreadsheet, which included the students’ names, birth dates, and the Beneficiary’s facility the students attended. The spreadsheet, which was completed after submission of the FCC Form 471 but reflects actual enrollment in Funding Year 2016, identified 386 students enrolled. AAD utilized the spreadsheet to determine whether students were eligible for SLP support.

AAD examined the students’ birth dates and identified students that were under the age of three as of the start of Funding Year 2016, as follows:

Facility Name	Total Enrollment	Students Under the Age of Three	Percent of Ineligible Students
Lillian Wald	50	21	42%
Downtown Community Center	208	76	37%
PS 140 Nathan Straus	27	9	33%
PS 142 Amalia Castro	58	6	10%
PS 64 Robert Simon	43	16	37%
Grand Total	386	128	33%

Because the Beneficiary listed its total enrollment in the FCC Form 471, the Beneficiary did not demonstrate that a) only eligible Head Start students were identified in its FCC Form 471; b) a cost allocation methodology was used to remove ineligible students from its requests for SLP support; and c) the services requested and committed by SLP were only for eligible students. Thus, SLP over-committed \$68,554 to the Beneficiary, as follows:

⁴ See USAC’s website at <https://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/eligibility-table.aspx>.

FRN	Total Committed By SLP	Percent of Ineligible Students	Total Amount Over-Committed
1699077432	\$57,780	33%	\$19,067
1699077447	\$14,807	33%	\$4,886
1699077453	\$600	33%	\$198
1699077458	\$8,665	33%	\$2,859
1699077460	\$42,001	33%	\$13,860
1699118599	\$8,400	33%	\$2,772
1699146361	\$257	33%	\$85
1699146365	\$69,660	33%	\$22,988
1699146392	\$5,572	33%	\$1,839
Total	\$207,742		\$68,554

In addition, SLP was over-invoiced on the FCC Forms 472 Billed Entity Applicant Reimbursements (BEAR) and the FCC Forms 474 Service Provider Invoice (SPI) Forms for \$35,320, as follows:

FRN	Total Disbursed by SLP	Percent of Ineligible Students	Total Amount Over-Invoiced
1699077432	\$57,780	33%	\$19,067
1699077447	\$14,807	33%	\$4,886
1699077460	\$26,046	33%	\$8,595
1699118599	\$8,400	33%	\$2,772
Total	\$107,033⁵		\$35,320

Further, the Beneficiary's Category 2 budget for each location was not accurate. The Beneficiary can request Category 2 services for each location based only on the number of eligible students per location.⁶ AAD recalculated the Category 2 budget for Funding Year 2016, as follows:

Facility Name	Number of Eligible Students	Category Two Budget Per Student for Funding Year 2016	Total Pre-Discount Category 2 Budget
Lillian Wald	29	\$151.50	\$4,394
Downtown Community Center	132	\$151.50	\$19,998
PS 140 Nathan Straus	18	\$151.50	\$2,727
PS 142 Amalia Castro	52	\$151.50	\$7,878
PS 64 Robert Simon	27	\$151.50	\$4,091

⁵ FRNs not listed had \$0 disbursed by SLP as of the date of this audit report.

⁶ 47 C.F.R. § 54.502(b)(5) (2015).

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing eligibility requirements for Head Start services to children less than three years old. The Beneficiary has a limited number of administrative staff and, although the Beneficiary utilizes a consultant for SLP application and pre-commitment processes, the Beneficiary does not have a designated employee to maintain thorough knowledge of the Rules to ensure complete compliance with the Rules.

EFFECT

The monetary effect of this finding is \$68,554. This amount represents the funds committed by SLP for the ineligible students for the following FRNs.

FRN	Amount
1699077432	\$19,067
1699077447	\$4,886
1699077453	\$198
1699077458	\$2,859
1699077460	\$13,860
1699118599	\$2,772
1699146361	\$85
1699146365	\$22,988
1699146392	\$1,839
Totals	\$68,554

RECOMMENDATION

AAD recommends USAC management seek recovery of \$35,320. In addition, AAD recommends USAC management issue a downward commitment adjustment for \$68,554. The Beneficiary must properly allocate the costs of services requested and invoiced to SLP between eligible and ineligible students to ensure that SLP support is committed and disbursed for only eligible students. AAD also recommends the Beneficiary take advantage of the various outreach efforts provided by SLP, including the annual Fall Applicant training, webinars, newsletters, etc. The Beneficiary can learn more about the Rules governing eligible students and locations on USAC's website at <https://www.usac.org/sl/applicants/beforeyoubegin/non-traditional/default.aspx>.

BENEFICIARY RESPONSE

After working with USAC auditors on this audit, we realize our understanding of the rules governing eligibility requirements is deficient. What would seem to be a simple question of who is and who is not three years old in terms of eligibility turns out to be a more complicated question that requires a detailed knowledge of USAC's rules. These eligibility rules do not correspond to Head Start's definition of who is eligible to be in a 3's class or those we enroll in 3's classes. Head Start allows us to enroll children in 3's classes who are 2 years old as long as they turn 3 by December 31 of the school year. This means we have a number of children who are 2 years old when school begins in September but turn three over the next four months. We now know that USAC does not recognize these children as being eligible for the 2016-2017 school year.

We were also surprised and frustrated to learn that our E-Rate consultant was unable to provide clear guidance to us on age eligibility and other questions, which led to an inaccurate FCC Form 471 being

submitted on our behalf and continuing challenges with our consultant during the course of this audit. We must of course assume responsibility for our lack of understanding of the rules and for our consultant’s lack of understanding of the rules – and we do take responsibility. To begin addressing these shortcomings, we have informed USAC auditors that we are engaging a different E-Rate consultant who is better versed in E-Rate rules and eligibility and will partner with us to make sure we are in compliance with E-Rate rules and eligibility moving forward.

We respectfully request that USAC factor in the steps we are taking to bring our agency into compliance with E-Rate rules and eligibility when reviewing auditor recommendations and arriving at a final recovery amount.

Finding #2: *FCC Form 474 User Guide*, at 4 - Service Provider Over-Invoiced SLP for Amounts Not Reconciled to the Service Provider Bills.

CONDITION

AAD examined the FCC Forms 474 Service Provider Invoice (SPI) forms and the corresponding service provider bills provided by the Beneficiary for FRNs 1699077432 and 1699077447 to determine whether the Schools and Libraries Program (SLP) was invoiced only for eligible locations and services. Through examination of the documentation provided, AAD determined that the Service Provider, Mass Communications, Inc. (MassComm), invoiced SLP for amounts that do not reconcile to the costs of eligible services billed to the Beneficiary.

In its SPI form for FRN 1699077432, the Service Provider invoiced SLP for the full amount of \$57,780 committed by SLP by including the total amount billed for “Data Service Charges” to the Beneficiary in its SPI form Item 13 “Discount Amount Billed to USAC” rather than in Item 11 “Total (Undiscounted) Amount for Service per FRN,” as instructed in the *FCC Form 474 User Guide*. Specifically, the Service Provider billed the Beneficiary and invoiced SLP for FRN 1699077432, as follows:

Service Period	Amount Charged to Beneficiary for “Data Service Charges”	Undiscounted Amount Invoiced to SLP	Discounted Amount Invoiced to SLP
November 2016	\$9,954	\$64,200 ⁷	\$9,954
December 2016	\$9,954	\$64,200	\$9,954
January 2017	\$9,954	\$64,200	\$9,954
February 2017	\$9,954	\$64,200	\$9,954
March 2017	\$9,954	\$64,200	\$9,954
April 2017	\$9,652	\$64,200	\$8,010 ⁸
Total	\$59,423		\$57,780

⁷ The Service Provider entered the total undiscounted amount committed by SLP for FRN 1699077432 for each month.

⁸ The Service Provider entered the difference between the discounted amount committed by SLP for FRN 1699077432 and the amounts invoiced for the previous five months (i.e., \$57,780 – (\$9,954 * 5)).

In addition, in its SPI form for FRN 1699077447, the Service Provider included the full amount of \$14,807 committed by SLP in its SPI form Item 13 “Discount Amount Billed to USAC” rather than the discounted cost of the eligible services delivered and billed to the Beneficiary. For the service period from November 2016 through April 2017, the Service Provider billed the Beneficiary for “Local Service Charges” amounting to \$12,675 plus associated taxes and other fees of approximately \$1,554 for a total undiscounted cost of \$14,229 for FRN 1699077447. However, in its Item 11 “Total (Undiscounted) Amount for Service per FRN” of the SPI form, the Service Provider invoiced SLP for total undiscounted costs of \$29,614.

By invoicing SLP for the full amounts committed in Item 13 of the SPI forms and then grossing up the undiscounted cost in Line 11 by dividing Line 13 by the Beneficiary’s discount rate rather than reconciling Item 11 to the undiscounted cost of eligible services billed to the Beneficiary, the Service Provider over-invoiced SLP.

AAD examined the Service Provider’s bills provided by the Beneficiary to support the six months of services invoiced to SLP and determined that the undiscounted cost of eligible services was \$27,602 (\$18,068 + \$9,534), resulting in a discounted cost of \$21,030 (\$16,262 + \$4,768), as follows:

FRN 1699077432

	November 2016	December 2016	January 2017	February 2017	March 2017	April 2017	Total
Undiscounted Cost of “Data Service Charges”	\$9,954	\$9,954	\$9,954	\$9,954	\$9,954	\$9,653	\$59,423
Add: Undiscounted Cost of Associated Taxes and Other Fees	\$656	\$642	\$642	\$642	\$642	\$625	\$3,849
Total Undiscounted Cost of Services Requested for FRN 1699077432	\$10,610	\$10,596	\$10,596	\$10,596	\$10,596	\$10,278	\$63,272
Less: Undiscounted Cost of Services to Ineligible Locations ⁹	\$5,918	\$5,907	\$5,907	\$5,907	\$5,907	\$5,589	\$35,135

⁹ The Service Provider billed the Beneficiary for services delivered to six ineligible locations that did not meet the statutory definition of elementary school or secondary school, as defined in 47 C.F.R. § 54.501(a)(1) (2015). The locations included The Educational Alliance Center for Recovery and Wellness that provides clinical services, Lillian Wald Early Head Start that provides child day care, New York City Recreation and Fitness Center that operates a health and wellness center, Sirovich Center for Balanced Living that provides elderly care, Co-op Village Naturally Occurring Retirement Community that provides elderly care, and The Educational

Less: Undiscounted Cost of Services to Ineligible Students at Eligible Locations ¹⁰	\$1,679	\$1,678	\$1,678	\$1,678	\$1,678	\$1,678	\$10,069
Total Undiscounted Cost of Eligible Services	\$3,013	\$3,011	\$3,011	\$3,011	\$3,011	\$3,011	\$18,068
Beneficiary's Discount Rate	90%	90%	90%	90%	90%	90%	
Discounted Amount of Eligible Services	\$2,712	\$2,710	\$2,710	\$2,710	\$2,710	\$2,710	\$16,262

FRN 1699077447

	November 2016	December 2016	January 2017	February 2017	March 2017	April 2017	Total
Undiscounted Cost of "Local Service Charges"	\$2,144	\$2,112	\$2,105	\$2,105	\$2,105	\$2,105	\$12,676
Add: Undiscounted Cost of Associated Taxes and Other Fees	\$263	\$259	\$258	\$258	\$258	\$258	\$1,554
Total Undiscounted Cost of Services Requested for FRN 1699077447	\$2,407	\$2,371	\$2,363	\$2,363	\$2,363	\$2,363	\$14,230
Less: Undiscounted Cost of Services to Ineligible Students at Eligible Locations ¹¹	\$794	\$782	\$780	\$780	\$780	\$780	\$4,696
Total Undiscounted Cost of Eligible Services	\$1,613	\$1,589	\$1,583	\$1,583	\$1,583	\$1,583	\$9,534
Beneficiary's Discount Rate	50%	50%	50%	50%	50%	50%	
Discounted Amount of Eligible Services	\$806	\$794	\$792	\$792	\$792	\$792	\$4,768

Alliance Pride site that provides substance abuse rehabilitation services. In addition, one of the eligible locations, the Beneficiary's downtown community center, operates a fitness center open to the public that does not serve the Head Start students at the location. The fitness center occupies one of the seven floors and, therefore, approximately 14 percent (1 / 7) of the location is ineligible for SLP support.

¹⁰ The Service Provider billed the Beneficiary for services delivered to three eligible locations requested in the Beneficiary's FCC Form 471 (i.e., the Beneficiary's administrative building, Lillian Wald Head Start, and the Beneficiary's downtown community center). However, as 33 percent of the student population was ineligible for SLP support, 33 percent of the services delivered to the administrative building were ineligible. In addition, 42 percent of the services delivered to Lillian Wald Head Start and 37 percent of the services delivered to the Downtown Community Center were ineligible as a result of ineligible students served at those locations. See Finding #1.

¹¹ The Service Provider billed the Beneficiary for services delivered to the Beneficiary's administrative building. However, as 33 percent of the student population was ineligible for SLP support, 33 percent of the services delivered to the administrative building were ineligible.

CAUSE

The Service Provider did not demonstrate sufficient knowledge of the Rules governing the invoicing process. The Service provider did not perform adequate research and did not seek appropriate assistance, including the FCC Form 474 (SPI) User Guide and outreach available on USAC’s website, to determine how to seek reimbursement in its FCC Form 474 only for eligible services provided to eligible locations.

EFFECT

The monetary effect of this finding is \$51,557. This represents the difference between the discounted amount invoiced to SLP by the Service Provider and the discounted amount of eligible services that should have been invoiced to SLP, as follows.

FRN	Discounted Amount Invoiced to SLP	Discounted Amount of Eligible Services	Monetary Effect
1699077432	\$57,780	\$16,262	\$41,518
1699077447	\$14,807	\$4,768	\$10,039
Total	\$72,587	\$21,030	\$51,557

RECOMMENDATION

AAD recommends USAC management seek recovery of \$51,557. The Service Provider must ensure it obtains sufficient knowledge of the Rules and implement controls and procedures to ensure that it seeks reimbursement only for eligible services provided to eligible students at approved, eligible locations and billed to the Beneficiary.

BENEFICIARY RESPONSE

We have taken several steps to put in place internal controls needed to ensure invoiced amounts represent eligible services being provided to eligible locations. First, we severed our contractual relationship with MassComm, the service provider that was invoicing USAC for services at ineligible locations. The replacement service provider does not invoice USAC for services. Second, we will no longer allow service providers to invoice USAC directly as they don’t have sufficient knowledge of our agency’s work and E-Rate rules and eligibility. Third, as stated in Finding #1, we are engaging a different E-Rate consultant who is better versed in E-Rate rules and eligibility and will demonstrate greater diligence in learning about the breadth of our work and those areas that are and are not E-Rate eligible. Finally, and more will be discussed about this in Finding #3, we now understand we must be more engaged with our consultant and all submissions of forms to make sure we are in compliance with E-Rate rules and eligibility.

Again, we respectfully request that USAC factor in the steps we are taking to bring ourselves into compliance with E-Rate rules and eligibility when arriving at a final recovery amount.

We severed our relationship with service provider MassComm earlier this year. We no longer allow service providers to invoice USAC directly as they don’t have sufficient knowledge of E-Rate rules and eligibility and our work at our various locations.

SERVICE PROVIDER RESPONSE

The Service Provider, Mass Communications, Inc., chose not to provide a response to this finding.

Finding #3: 47 C.F.R. § 54.505(b)(4) – Beneficiary Did Not Include All Locations on FCC Form 471

CONDITION

AAD obtained and examined documentation, including the Beneficiary’s FCC Form 471 and documentation provided by the Beneficiary from the state of New York identifying the eligible Head Start programs operated by the Beneficiary, to determine whether the Beneficiary included all eligible locations in its FCC Form 471 discount calculation for FRNs 1699077432, 1699077447, 1699118652, 1699091373, and 1699092288. In its FCC Form 471, the Beneficiary identified itself as a “School District.” Based on a review of the documentation provided by the Beneficiary, AAD determined that one location, PS 140 Nathan Straus, was not included in the Beneficiary’s discount calculation in its FCC Form 471. School districts must calculate its discount rates based on the district-wide discounts of all member schools. Therefore, the Beneficiary submitted an inaccurate FCC Form 471 to SLP.

CAUSE

The Beneficiary did not have adequate controls and procedures in place to ensure its FCC Form 471 was complete and accurate. The Beneficiary did not have a designated employee perform a thorough review of the FCC Form 471 completed by its consultant prior to submission to SLP.

EFFECT

There is no monetary effect for this finding as Head Start programs are 100 percent eligible for NSLP and, therefore, the discount rate would not have changed for FRNs 1699077432, 1699077447, 1699118652, 1699091373, and 1699092288.¹² In addition, SLP beneficiaries are allowed to add eligible schools that were inadvertently omitted from its FCC Form 471.¹³

RECOMMENDATION

The Beneficiary must implement controls and procedures to ensure that a sufficient review of the FCC Form 471 is performed to substantiate information reported on the FCC Form 471, prior to submitting the form to SLP.

BENEFICIARY RESPONSE

This audit has demonstrated to us that we cannot solely rely upon an E-Rate consultant to keep us in compliance with E-Rate rules and eligibility. We now realize we must take the lead in understanding the E-Rate program as it relates to our agency’s work. Moving forward, and working with a more knowledgeable E-Rate consultant, we will tighten controls. No party will be able to submit forms, including FCC Form 471, without our having knowledge of what is being submitted and ensuring the information is accurate. No service provider will be able to invoice USAC directly again. We are designating a member of our Finance

¹² See memo from United States Department of Agriculture to Regional Directors of Special Nutrition Programs and State Directors of Child Nutrition Programs; Memo Code SP 40-2013, CACFP 11-2013, SFSP 13-2013 (May 17, 2013). “Children enrolled in Federal and State-funded Head Start or Early Head Start Programs are categorically eligible to receive free meal benefits without further application or eligibility determination.”

¹³ See *E-Rate Modernization Order*, para. 218.

Department who is compliance oriented to be the lead person responsible for managing our participation in the E-Rate program and understanding E-Rate rules and eligibility. This person's responsibilities will also include reviewing FCC Form 471 and other documents before they are submitted.

We understand the rules much better now and assume responsibility for the lack of internal controls in place during the audit period around our participation in E-Rate. We ask that you consider the steps we are taking to improve our internal controls and oversight, and believe they demonstrate our seriousness in addressing the findings of this audit.

CRITERIA

Finding	Criteria	Description
#1, 2	47 C.F.R. § 54.501(a)(1) (2015).	Only schools meeting the statutory definition of “elementary school” or “secondary school” as defined in § 54.500 of this subpart, and not excluded under paragraphs (a)(2) or (3) of this section shall be eligible for discounts on telecommunications and other supported services under this subpart.
#1	47 C.F.R. § 54.502(b)(5) (2015).	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.
#2	<i>Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide at 4, 11 (Apr. 2017) (FCC Form 474 User Guide).</i>	Service providers that have provided discounted eligible services and discounted bills to eligible schools, school districts, libraries, library consortia, and consortia of multiple entities must file the FCC Form 474 to seek reimbursement for the cost of the discounts... Item (11) – Total (Undiscounted) Amount for Service per FRN. This item represents the total undiscounted monthly and one-time charges for all eligible services on the individual invoice or bill issued to the customer. This item represents the total price for eligible services before any eligible discount is applied. The total undiscounted amount may include all reasonable associated charges, such as federal and state taxes, that the customer incurs when they obtain services.
#3	47 C.F.R. § 54.505(b)(4) (2015).	School districts, library systems, or other billed entities shall calculate discounts on supported services described in § 54.502(a) that are shared by two or more of their schools, libraries, or consortia members by calculating an average discount based on the applicable district-wide discounts of all member schools and libraries.... For schools, the discount shall be a simple average of the applicable district-wide percentage for all schools sharing a portion of the shared services.
#3	<i>In the Matter of 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</i>	[W]e find that an applicant can add eligible schools within its district that were inadvertently omitted from its applications, even after the deadline for making changes to the FCC Form 471.

Finding	Criteria	Description
	Rcd. 8870, para. 218 (2014) (<i>E-rate Modernization Order</i>).	

Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: May 1, 2019

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Davie County School District Attachment E	1	• No significant findings.	\$85,528	\$0	\$0	\$0	N
E.L. Haynes Public Charter School Attachment F	1	• No significant findings.	\$90,462	\$0	\$0	\$0	N
Total	2		\$175,990	\$0	\$0	\$0	

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

*E.L. Haynes Public Charter School
Audit ID: SL2018BE017
(BEN: 17005123)*

*Performance audit for the Universal Service Schools and
Libraries Program Disbursements related to Funding
Year 2017 as of September 30, 2018*

Prepared for: Universal Service Administrative Company

As of Date: April 24, 2019

KPMG LLP
800 S. Gay Street, Suite 910
Knoxville, TN 37929

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

AUDIT RESULTS AND RECOVERY ACTION 5

USAC MANAGEMENT RESPONSE 6

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES..... 7

 Background 7

 Program Overview 7

 Beneficiary Overview 7

 Objectives 8

 Scope..... 8

 Procedures..... 9

RESULTS 11

 Findings, Recommendations and Beneficiary Responses..... 11

 Criteria 11

 Conclusion 12



KPMG LLP
 Suite 910
 800 South Gay Street
 Knoxville, TN 37929-9729

EXECUTIVE SUMMARY

April 24, 2019

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

Dear Mrs. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to the E. L. Haynes Public Charter School, Billed Entity Number (“BEN”) 17005123, (“E. L. Haynes” or “Beneficiary”) for disbursements of \$90,462 and commitments of \$98,744, made from the federal Universal Service Schools and Libraries Program related to the twelve-month period ended June 30, 2018, as of September 30, 2018 (hereinafter “Funding Year 2017”). Our work was performed during the period from October 29, 2018 to April 24, 2019, and our results are as of April 24, 2019.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (“GAGAS”). 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.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (“AICPA”). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objective of our work 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 \$98,744 and disbursements of \$90,462 made from the E-rate Program related to Funding Year 2017. 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 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 Funding Year 2017 were not impacted.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

In addition, we also noted one other matter that we have reported to the management of the Beneficiary in a separate letter dated April 24, 2019.

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
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
E. L. Haynes	E. L. Haynes Public Charter School
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 2017	The twelve-month period from July 1, 2017 to June 30, 2018 during which E-rate Program support is provided (as of September 30, 2018)
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
<u>SL2018BE017-F01: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice</u> – A public meeting was neither advertised nor held to discuss CIPA and the Internet Safety Policy for Funding Year 2017.	\$0	\$0
Total Net Monetary Effect	\$0	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC offers a webcast to help applicants understand compliance with the Children's Internet Protection Act (CIPA) available at (https://goto.webcasts.com/startthere.jsp?ei=1190671&tp_key=2f47022845). USAC also directs the Beneficiary to USAC's website under "Reference Area" for guidance on CIPA available at (<https://www.usac.org/sl/applicants/step05/cipa.aspx>). USAC also provides a News Brief with helpful information about CIPA requirements available at (<https://www.usac.org/sl/tools/news-briefs/preview.aspx?id=831>).

Further, USAC recommends the Beneficiary 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>).

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. The discount rate reduction for voice services in Funding Year 2017 is 60%. 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 \$98,744 and disbursements of \$90,462 made for Funding Year 2017.

Beneficiary Overview

The E. L. Haynes Public Charter School (BEN# 17005123) is a charter school located in Washington, D.C. that serves over 1,000 students in grades Pre-K through 12. There are two campuses that comprise E. L. Haynes: the Kansas Avenue Campus hosts both the Elementary School and the High School and the Georgia Avenue Campus hosts the Middle School.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2017 by service type:

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$62,392	\$62,392
Telecommunications Services (Data Transmission Services)	\$24,089	\$16,795
Voice Services	\$12,263	\$11,275
Total	\$98,744	\$90,462

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 2017. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2017, as of September 30, 2018.

The committed total represents two FCC Form 471 applications with five FRNs. We selected four FRNs, which represent \$96,537 of the funds committed and \$88,255 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2017 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 \$98,744 and disbursements of \$90,462 made from the E-rate Program for Funding Year 2017. 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 2017 and disbursements received, 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 Funding Year 2017.

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 and received by the Beneficiary for Funding Year 2017. 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.

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

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 and equipment 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 472 Billed Entity Applicant Reimbursements (BEARs), FCC Form 474 Service Provider Invoices (SPIs) and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

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 and BEAR forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the SPI

and BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate 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 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 2017 commitments and disbursements made from the E-rate Program.

Findings, Recommendations and Beneficiary Responses

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

Finding No.	<u>SL2018BE017-F01: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice</u>
Condition	<p>The Beneficiary did not have evidence to support that public notice was provided nor a public meeting held in order to discuss CIPA and the Beneficiary’s Internet Safety Policy during Funding Year 2017.</p> <p>However, on December 5 and 6, 2018, during the course of the audit although outside of the audit period, the Beneficiary advertised and held public meetings at both the Georgia Avenue and Kansas Avenue campuses where CIPA and the Internet Safety Policy were discussed.</p>
Cause	<p>The Beneficiary did not demonstrate sufficient knowledge of the Rules governing CIPA and the Internet Safety Policy in relation to providing public notice and holding a public meeting to discuss the policy. In addition, the Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records that demonstrate CIPA compliance were properly retained.</p>
Effect	<p>There is no monetary effect for this finding, as the Beneficiary rectified the issue.</p>
Recommendation	<p>KPMG recommends that the Beneficiary implement controls and procedures to ensure compliance with the CIPA requirements and ensure that adequate records related to providing public notice and holding a public meeting to discuss the Internet Safety Policy are retained.</p>
Beneficiary Response	<p>In regards to finding SL2018BE017-F01: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice, E.L. Haynes is aware of the CIPA requirements and, in addition, we advertised and held public meetings in December to inform our community of our internet safety policies and computer use policies.</p>

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 54.516 (a) (2016).	“Recordkeeping requirements—(1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the

Finding	Criteria	Description
		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.”
#1	47 C.F.R. § 54.520 (h) (2016).	“Public notice; hearing or meeting. A school or library shall provide reasonable public notice and hold at least one public hearing or meeting to address the proposed Internet safety policy.”

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified one finding: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice. Detailed information relative to the finding is described in the Findings, Recommendations and Beneficiary Responses section above.

There is no monetary effect for this finding.

KPMG recommends that the Beneficiary implement controls and procedures to ensure that adequate records related to providing public notice and holding a public meeting to discuss the Internet Safety Policy are retained in compliance with CIPA requirements.



Universal Service
Administrative Co.

Davie County School District

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR020

CONFIDENTIAL

TABLE OF CONTENTS

Executive Summary..... 1

Audit Results and Commitment Adjustment/Recovery Action.....3

USAC Management Response3

Purpose, Scope, Background and Procedures.....4

Detailed Audit Findings6

Finding #1: 47 C.F.R. § 54.514(b) (2012) – Untimely Reimbursement from Service
 Provider6

Criteria8



EXECUTIVE SUMMARY

February 13, 2019

Dr. Bill Steed, Interim Superintendent
Davie County School District
220 Cherry Street
Mocksville, NC 27028

Dear Dr. Steed:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Davie County School District (Beneficiary), Billed Entity Number (BEN) 126809, using regulations and orders governing the federal Universal Service Schools and Libraries Program, 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 the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the invoices submitted to the Schools and Libraries Program (SLP) for eligible services received, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

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

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Teleshia Delmar', is written over the typed name and title.

Teleshia Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Catriona Ayer, USAC Acting Vice President, Schools and Libraries Division

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
Finding #1: 47 C.F.R. § 54.514(b) (2011)–Untimely Reimbursement from Service Provider. The Service Provider did not provide reimbursement to the Beneficiary in accordance with the Rules.	\$0	\$0	\$0
Total Net Monetary Effect	\$0	\$0	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. USAC will request the Beneficiary and Service Provider provide copies of policies and procedures implemented to address the issues identified.

Information on Invoicing for applicants is available in the E-rate Program Applicant Training Series available at (<https://www.usac.org/res/video/sl/14-navigating-invoice-process/index.html>). Information on Invoicing for service providers is available in the E-rate Program Service Provider Training Series available at (<https://www.usac.org/res/video/sl/sp/14-sp-invoicing/index.html>) and (<https://www.usac.org/res/video/sl/sp/15-sp-invoicing-advanced/index.html>).

In addition, USAC offers a webcast to help applicants and service providers be successful in the Invoicing process available at (<https://register.gotowebinar.com/register/8853081102717051650>). USAC also directs the Beneficiary to USAC’s website under “Reference Area” for guidance on Invoicing available at (<https://www.usac.org/sl/applicants/step06/default.aspx>).

Further, USAC recommends the Beneficiary 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, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2012 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$9,534	\$3,172
Telecommunications	\$102,062	\$82,356
Total	\$111,596	\$85,528

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

The committed total represents one FCC Form 471 application with nine Funding Request Numbers (FRNs). AAD selected seven FRNs¹, which represent \$102,062 of the funds committed and \$85,528 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2012 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a public school district located in Mocksville, North Carolina that serves over 6,700 students.

PROCEDURES

AAD performed the following procedures:

A. Invoicing Process

AAD obtained and examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

B. Reimbursement Process

AAD obtained and examined invoices submitted to SLP for reimbursement for the services delivered to the Beneficiary to determine whether SLP was invoiced properly. AAD determined whether the services identified on the Billed Entity Applicant Reimbursement (BEAR) forms and the corresponding service provider bills were eligible in accordance with the SLP Eligible Services List. AAD also obtained and examined documentation to determine whether the Beneficiary was issued credits on the service provider

¹ The FRNs included in the scope of this audit were: 2361009, 2361025, 2361033, 2361038, 2361044, 2361052, and 2361057.

bills or whether the service provider remitted a check to the Beneficiary within 20 days after receipt of the reimbursement payment from SLP.

DETAILED AUDIT FINDING

Finding #1: 47 C.F.R. § 54.514(b) (2012) – Untimely Reimbursement from Service Provider

CONDITION

AAD obtained and examined documentation to determine whether the Service Provider, Yadkin Valley Telephone Membership Corporation, timely reimbursed the Beneficiary the total discounted amount for FRNs 2361009, 2361025, 2361033, 2361038, 2361052, and 2361057.

The Beneficiary submitted FCC Form 472, Billed Entity Applicant Reimbursement (BEAR) form Nos. 1909639 and 1909689 to the Schools and Libraries Program (SLP) on October 15, 2013 for FRNs 2361009, 2361025, 2361038, and 2361052. SLP processed the BEAR forms and issued reimbursements to the Service Provider on November 1, 2013 for \$43,084. The Beneficiary also submitted BEAR form No. 1916303 to SLP on October 29, 2013 for FRN 2361057. SLP processed the BEAR form and issued a reimbursement to the Service Provider on November 15, 2013 for \$5,838. The Service Provider remitted the full reimbursement amounts via physical checks to the Beneficiary’s consulting firm, New Hope Technology Foundation on January 8, 2014.

The Beneficiary submitted BEAR form No. 2094239 to SLP on October 22, 2014 for FRN 2361033. SLP processed the BEAR form and issued a reimbursement to the Service Provider on November 7, 2014 for \$14,402. The Service Provider remitted the full reimbursement amount via a physical check to New Hope Technology Foundation on November 13, 2014.

New Hope Technology Foundation deposited the funds reimbursed by the Service Provider and did not remit the full amount of the reimbursements to the Beneficiary for FRNs 2361009, 2361025, 2361038, 2361052, and 2361057 until May 28, 2017 and on September 1, 2017 for FRN 2361033. The chart below summarizes the details:

Funding Request Number (FRN)	Date USAC Reimbursed Service Provider	Date Service Provider Provided Reimbursement to Consulting Firm	Date Beneficiary Received Reimbursement
2361009	November 1, 2013	January 8, 2014	May 28, 2017
2361025	November 1, 2013	January 8, 2014	May 28, 2017
2361033	November 7, 2014	November 13, 2014	September 1, 2017
2361038	November 1, 2013	January 8, 2014	May 28, 2017
2361052	November 1, 2013	January 8, 2014	May 28, 2017
2361057	November 15, 2013	January 8, 2014	May 28, 2017

Although the Beneficiary received the proper reimbursement amounts, the Service Provider did not provide reimbursement to the Beneficiary within 20 business days following receipt of the funds disbursed by SLP.²

² 47 C.F.R. § 54.514(b) (2012); *Billed Entity Applicant Reimbursement Form (FCC Form 472)*, (OMB 3060-0856) (Jul. 2013), at 4, Block 4 (Service Provider Acknowledgment).

CAUSE

The Service Provider did not have adequate controls and procedures in place to ensure that the funds were reimbursed to the Beneficiary within 20 business days. The Service Provider informed AAD that the untimely reimbursements were due to a scheduling oversight.³

EFFECT

There is no monetary effect for this finding since the Beneficiary received the proper reimbursement amount.

RECOMMENDATION

The Service Provider must implement controls and procedures to ensure it reimburses beneficiaries within 20 business days following the receipt of funds disbursed by SLP.

BENEFICIARY RESPONSE

All reimbursements expected from the Billed Entity Applicant Reimbursement (BEAR) process have been received. The beneficiary has since terminated the contract with the consultant responsible for the delay in forwarding reimbursements.

SERVICE PROVIDER RESPONSE

Yadkin Valley Telephone Membership Corporation (Service Provider) is no longer involved in the reimbursement process for Beneficiaries of the SLP who complete the FCC Form 472 (BEAR). The reimbursements are issued directly to the Beneficiary once applied for and accepted by USAC.

³ Email to AAD from Butch Mabry, Regulatory Affairs Analyst, for Yadtel Telecom, on January 29, 2019.

CRITERIA

Finding	Criteria	Description
#1	47 C.F.R. § 54.514(b) (2012).	Service providers that receive discount reimbursement checks from the Administrator after having received full payment from the billed entity must remit the discount amount to the billed entity no later than 20 business days after receiving the reimbursement check.
#1	<i>Billed Entity Applicant Reimbursement Form (FCC Form 472)</i> , (OMB 3060-0856) (Jul. 2013), at 4, Block 4 (Service Provider Acknowledgment). (2013).	The service provider must remit the discount amount authorized by the fund administrator to the Billed Entity Applicant who prepared and submitted this Billed Entity Applicant Reimbursement Form as soon as possible after the fund administrator's notification to the service provider of the amount of the approved discounts on this Billed Entity Applicant Reimbursement Form, but in no event later than 20 business days after receipt of the reimbursement payment from the fund administrator[.]

*Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: June 6, 2019**

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Reading School District Attachment G	1	<ul style="list-style-type: none"> • <u>Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process.</u> The Beneficiary was unable to provide any of the service provider bid proposals it received to support the costs and other criteria used during the bid evaluation. 	\$1,035,328	\$66,168	\$66,168	\$0	N
Memphis Rise Academy Attachment H	2	<ul style="list-style-type: none"> • No significant findings. 	\$76,690	\$1,356	\$1,356	\$0	N
Environmental Charter Schools Attachment I	0	<ul style="list-style-type: none"> • Not applicable (no findings). 	\$83,918	\$0	\$0	\$0	N
Total	3		\$1,195,936	\$67,524	\$67,524	\$0	

**Note:* In June 2019, AAD also released one confidential audit, USAC Audit No. SL2017LR027, which will be presented in *Executive Session* at the July 29, 2019 Schools and Libraries Committee Meeting.



Reading School District

Limited Review Performance Audit on Compliance with the Federal
Universal Service Fund Schools and Libraries Support Mechanism Rules
USAC Audit No. SL2017LR045

TABLE OF CONTENTS

Executive Summary 1

Audit Results and Commitment Adjustment/Recovery Action 3

USAC Management Response 4

Purpose, Scope, Background and Procedures 5

Detailed Audit Finding 7

Finding #1: 47 C.F.R. §54.516(a)(1) (2016) - Lack of Documentation - Beneficiary Did Not
 Substantiate the Competitive Bidding Process 7

Criteria..... 9



EXECUTIVE SUMMARY

March 15, 2019

Dr. Khalid N. Mumin, Superintendent
Reading School District
800 Washington Street
Reading, Berks, PA 19601-3616

Dear Dr. Mumin:

The Universal Service Administrative Company (USAC or Administrator) Audit and Assurance Division (AAD) audited the compliance of Reading School District (Beneficiary), Billed Entity Number (BEN) 126265, using regulations and orders governing the federal Universal Service Schools and Libraries Program, 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 the Beneficiary's management. AAD's responsibility is to make a determination regarding the Beneficiary's compliance with the Rules based on our limited review performance audit.

AAD conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that AAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. The audit included examining, on a test basis, evidence supporting the competitive bidding process undertaken to select service providers, data used to calculate the discount percentage and the type and amount of services received, physical inventory of equipment purchased and maintained, as well as performing other procedures AAD considered necessary to make a determination regarding the Beneficiary's compliance with the Rules. The evidence obtained provides a reasonable basis for AAD's findings and conclusions based on the audit objectives.

Based on the test work performed, our examination disclosed one detailed audit finding (Finding) discussed in the Audit Results and Commitment Adjustment/Recovery Action section. For the purpose of this report, a Finding is a condition that shows evidence of non-compliance with the Rules that were in effect during the audit period.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Telesha Delmar', written over the printed name.

Telesha Delmar
USAC Vice President, Audit and Assurance Division

cc: Radha Sekar, USAC Chief Executive Officer
Catriona Ayer, USAC Vice President, Schools and Libraries Division

AUDIT RESULT AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Result	Monetary Effect	Recommended Recovery	Recommended Commitment Adjustment
<p>Finding #1: 47 CFR § 54.516(a)(1) (2016)—Lack of Documentation – Beneficiary Did Not Substantiate the Competitive Bidding Process. The Beneficiary was unable to provide any of the service provider bid proposals it received to support the costs and other criteria used during the bid evaluation.</p>	\$66,168	\$66,168	N/A
Total Net Monetary Effect	\$66,168	\$66,168	\$0

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amounts. During the recovery review process, if there are other Funding Requests that fall under this finding there may be additional recoveries.

USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC offers a webcast to help applicants understand the competitive bidding process available at (https://goto.webcasts.com/starthere.jsp?ei=1203188&tp_key=c4fd271556). USAC also offers an applicant training course on competitive bidding that was delivered in the 2018 fall applicant training series available at (<https://www.usac.org/res/video/sl/10-comp-bidding/index.html>). In addition, USAC directs the Beneficiary to USAC’s website under “Reference Area” for guidance on Competitive Bidding available at (<https://www.usac.org/sl/applicants/step01/default.aspx>).

Information on document retention requirements is available under the “Reference Area” of USAC’s website available at (<https://www.usac.org/sl/tools/document-retention.aspx>). For a suggested list of E-rate documents to be retained see paragraphs 45-50 of the FCC’s 5th Report and Order available at (http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-04-190A1.pdf).

Further, USAC recommends the Beneficiary 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>). USAC released a News Brief on 2/1/19 with detailed information on competitive bidding rules available at (<https://www.usac.org/sl/tools/news-briefs/preview.aspx?id=872>). Additional News Briefs with competitive bidding guidance were released on 2/8/19 available at (<https://www.usac.org/sl/tools/news-briefs/preview.aspx?id=877>) and on 2/15/19 available at (<https://www.usac.org/sl/tools/news-briefs/preview.aspx?id=878>). USAC also issued a News Brief covering document retention requirements on 3/22/19 available at (<https://www.usac.org/sl/tools/news-briefs/preview.aspx?id=883>).

Funding Request Number (FRN)	Recovery Amount
2327691	\$15,768
2481559	\$15,768
2655075	\$15,768
2807052	\$12,264
1699057805	\$6,600
Total	\$66,168

PURPOSE, SCOPE, BACKGROUND AND PROCEDURES

PURPOSE

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

SCOPE

The following chart summarizes the Schools and Libraries Program support amounts committed and disbursed to the Beneficiary for Funding Year 2016 (audit period):

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$841,154	\$815,176
Internet Access	\$423,366	\$213,552
Voice	\$12,134	\$6,600
Total	\$1,276,654	\$1,035,328

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

The committed total represents four FCC Form 471 applications with 11 Funding Request Numbers (FRNs). AAD selected seven FRNs¹, which represent \$1,139,966 of the funds committed and \$927,399 of the funds disbursed during the audit period, to perform the procedures enumerated below with respect to the Funding Year 2016 applications submitted by the Beneficiary.

BACKGROUND

The Beneficiary is a public school district located in Reading, Pennsylvania that serves over 17,290 students.

PROCEDURES

AAD performed the following procedures:

A. Application Process

AAD obtained an understanding of the Beneficiary's processes relating to the Schools and Libraries Program (SLP). Specifically, AAD examined documentation to support its effective use of funding and that adequate controls exist to determine whether funds were used in accordance with the Rules. AAD used inquiry and direct observation to determine whether the Beneficiary had the necessary resources to support the equipment and services for which funding was requested. AAD also used inquiry to obtain an understanding of the process the Beneficiary used to calculate its discount percentage and validated its accuracy.

¹ The FRNs included in the scope of this audit were: 1699007738, 1699007753, 1699007779, 169900789, 1699057805, 1699057876, and 1699099928. After the announcement of our audit, the Beneficiary cancelled FRN 1699057876 which represents \$35,910 of the funds committed for Internet access during the audit period.

B. Competitive Bid Process

AAD obtained and examined documentation to determine whether all bids received were properly evaluated and price of the eligible services and goods was the primary factor considered. AAD also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC’s website before signing contracts or executing month-to-month agreements with the selected service providers. AAD evaluated the equipment and services requested and purchased for cost effectiveness as well.

C. Invoicing Process

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

D. Site Visit

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

E. Reimbursement Process

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

DETAILED AUDIT FINDING

FINDING #1: 47 C.F.R. §54.516(a)(1) (2016) - Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process

CONDITION

AAD requested competitive bidding documentation, including the Beneficiary's FCC Form 470, Request for Proposal (RFP), service provider bid proposals, and the bid evaluation matrix, to determine whether the Beneficiary conducted a fair and open competitive bidding process, carefully considered all bids received, and selected the most cost-effective service provider for FRN 1699057805. In its FCC Form 470 and RFP, the Beneficiary requested voice services for Funding Year 2012. The Beneficiary's bid evaluation matrix indicates that five service providers submitted bid proposals. The Beneficiary entered into a multi-year contract with one of the service providers, CTSI, LLC, dba Frontier Communications in 2012, which also covers Funding Year 2016, for the same pricing that was quoted in the bid evaluation matrix. Per AAD's review of the bid evaluation matrix, the Beneficiary appears to have selected the service provider with the lowest priced bid. However, the Beneficiary was unable to provide any of the service provider bid proposals it received to support the costs and other criteria used during the bid evaluation.² AAD is required to conduct audits in accordance with Generally Accepted Government Auditing Standards (GAGAS),³ which require the auditors to obtain sufficient, appropriate evidence to substantiate audit findings and conclusions.⁴ Because the Beneficiary did not provide documentation to demonstrate that it properly evaluated all bid proposals received, AAD is unable to conclude that the Beneficiary conducted a fair and open competitive bidding process, carefully considered all bids received, and selected the most cost-effective service provider for FRN 1699057805.⁵

CAUSE

The Beneficiary did not demonstrate sufficient knowledge of the Rules governing document retention. The Beneficiary verbally informed AAD that the current contact person was not employed with the school district during Funding Year 2012 and did not participate in the service provider selection process for FRN 1699057805.⁶

² 47 C.F.R. § 54.516(a)(1) (2016). (Note: The *E-rate Modernization Order* extended the document retention period from five to ten years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. See *In the Matter of Modernizing the E-rate Program for Schools & Libraries*, Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 13-184, 29 FCC 8870, para. 262 (2014) (*E-rate Modernization Order*.)

³ 47 C.F.R. § 54.702(n) (2016).

⁴ See U.S. Government Accountability Office, *Government Auditing Standards*, GAO-12-331G, para. 6.56 (Rev. Dec. 2011) ("Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.").

⁵ 47 C.F.R. § 54.511(a) (2016).

⁶ Per conference call with AAD and Jeff Haas, Chief Technology Officer for Reading School District (Nov. 22, 2017).

EFFECT

The monetary effect of this finding is \$66,168. This amount represents the total amount disbursed by SLP for the Beneficiary's discounted portion for all of the FRNs that were affected by the Beneficiary's competitive bidding process that lead to a multi-year contract.⁷ The affected FRNs are noted in the table below:

Funding Year	Funding Request Number (FRN)	Total Amount Disbursed
2012	2327691	\$15,768
2013	2481559	\$15,768
2014	2655075	\$15,768
2015	2807052	\$12,264
2016	1699057805	\$6,600

RECOMMENDATION

AAD recommends USAC management seek recovery of \$66,168. The Beneficiary must implement controls and procedures to ensure the Beneficiary retains all documentation 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.

BENEFICIARY RESPONSE

The current management team has been in place since 2014 and maintains organized electronic records meeting all Federal and State guidelines for procurements to ensure this situation does not arise in the future.

⁷ AAD reserves the right to increase the scope of work (e.g., examine another funding year) to "reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions." (*Government Auditing Standards*, GA0-12-331 G, ~ 6.07(2011 Revision)).

CRITERIA

Finding	Criteria	Description
#1	47 CFR § 54.516(a)(1) (2016).	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.
#1	47 CFR § 54.702(n) (2016).	The Administrator shall account for the financial transactions of the Universal Service Fund in accordance with generally accepted accounting principles for federal agencies and maintain the accounts of the Universal Service Fund in accordance with the United States Government Standard General Ledger. When the Administrator, or any independent auditor hired by the Administrator, conducts audits of the beneficiaries of the Universal Service Fund, contributors to the Universal Service Fund, or any other providers of services under the universal service support mechanisms, such audits shall be conducted in accordance with generally accepted government auditing standards. In administering the Universal Service Fund, the Administrator shall also comply with all relevant and applicable federal financial management and reporting statutes.
#1	47 C.F.R. § 54.511(a) (2016).	[1]n selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.

*Memphis Rise Academy
Audit ID: SL2018BE019
(BEN: 17009193)*

*Performance audit for the Universal Service Schools and
Libraries Program Disbursements related to Funding
Year 2017 as of September 30, 2018*

Prepared for: Universal Service Administrative Company

As of Date: May 28, 2019

KPMG LLP
200 East Randolph
Suite 5500
Chicago, Illinois 60601-6436

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

AUDIT RESULTS AND RECOVERY ACTION 6

USAC MANAGEMENT RESPONSE 7

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES..... 8

 Background 8

 Program Overview 8

 Beneficiary Overview 8

 Objectives 9

 Scope..... 9

 Procedures..... 10

RESULTS 12

 Findings, Recommendations and Beneficiary Responses..... 12

 Criteria 13

 Conclusion 14



KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

EXECUTIVE SUMMARY

May 28, 2019

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

Dear Mrs. Delmar:

This report presents the results of our work conducted to address the performance audit objectives relative to the Memphis Rise Academy, Billed Entity Number (“BEN”) 17009193, (“MRA” or “Beneficiary”) for disbursements of \$76,690 and commitments of \$106,156, made from the federal Universal Service Schools and Libraries Program related to the twelve-month period ended June 30, 2018, as of September 30, 2018 (hereinafter “Funding Year 2017”). Our work was performed during the period from October 16, 2018 to May 28, 2019, and our results are as of May 28, 2019.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (“GAGAS”). 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.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (“AICPA”). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objective of our work 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 \$106,156 and disbursements of \$76,690 made from the E-rate Program related to Funding Year 2017. 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 two 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 Funding Year 2017 were \$1,356 higher than they would have been had the amounts been reported properly.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated May 28, 2019.



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
BEAR	Billed Entity Applicant Reimbursement
BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
Cable Drops	Cable drops are typically wall outlets with an Ethernet jack that a computer or other network device can plug into
C.F.R.	Code of Federal Regulations
CIPA	Children's Internet Protection Act
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 2017	The twelve-month period from July 1, 2017 to June 30, 2018 during which E-rate Program support is provided (as of September 30, 2018)
Item 21	Description of the products and services for which discounts are sought in the FCC Form 471
MIBS	Managed Internal Broadband Services
MRA	Memphis Rise Academy
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
<u>SL2018BE019-F01: Beneficiary Over-Invoiced SLP for Services and Equipment Not Received</u> – Equipment purchased with E-Rate Program funding was not located during the site visit.	\$1,356	\$1,356
<u>SL2018BE019-F02: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice</u> – A public meeting was neither advertised nor held to discuss CIPA and the Internet Safety Policy for Funding Year 2017.	\$0	\$0
Total Net Monetary Effect	\$1,356	\$1,356

USAC MANAGEMENT RESPONSE

USAC management concurs with the Audit Results stated above. See the chart below for the recovery amount. During the recovery review process, if there are other FRNs that fall under these findings there may be additional recoveries or adjustments.

USAC will request that the Beneficiary provide copies of policies and procedures implemented to address the issues identified. USAC also offers two webcasts to help applicants understand the Invoicing process available at (<https://register.gotowebinar.com/register/8853081102717051650>) and (<https://register.gotowebinar.com/register/5739235589531224834?source=Webinars+page>). Additional information about invoicing for applicants is available in the presentation entitled “Navigating the E-rate Invoicing Process” available at (<https://www.usac.org/sl/about/outreach/2018-training.aspx>) and at USAC’s website under “Reference Area” available at (<https://www.usac.org/sl/service-providers/step05/default.aspx>).

In addition, USAC offers a webcast to help applicants understand compliance with the Children’s Internet Protection Act (CIPA) available at https://goto.webcasts.com/starthere.jsp?ei=1190671&tp_key=2f47022845). USAC also directs the Beneficiary to USAC’s website under “Reference Area” for guidance on CIPA available at (<https://www.usac.org/sl/applicants/step05/cipa.aspx>). USAC also provides a News Brief with helpful information about CIPA requirements available at (<https://www.usac.org/sl/tools/news-briefs/preview.aspx?id=831>).

Further, USAC recommends the Beneficiary subscribe to USAC’s weekly News Brief which provides program participants with valuable information about E-rate rule compliance. 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
1799009452	\$1,356

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. The discount rate reduction for voice services in Funding Year 2017 is 60%. 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 \$106,156 and disbursements of \$76,690 made for Funding Year 2017.

Beneficiary Overview

The Memphis Rise Academy (BEN# 17009193) is a charter school located in Memphis, Tennessee that serves over 400 students in grades 6 through 12. There are two campuses that comprise MRA: Memphis Rise Academy Middle School and Memphis Rise Academy High School.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2017 by service type:

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$ 57,174	\$57,174
Telecommunications Services (Data Transmission Services)	\$ 42,599	\$19,025
Voice Services	\$ 6,383	\$ 491
Total	\$106,156	\$76,690

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 2017. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2017 as of September 30, 2018.

The committed total represents two FCC Form 471 applications with five FRNs. We selected four FRNs, which represent \$105,665 of the funds committed and \$76,199 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2017 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 \$106,156 and disbursements of \$76,690 made from the E-rate Program for Funding Year 2017. 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 2017 and disbursements received, 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 Funding Year 2017.

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 and received by the Beneficiary for Funding Year 2017. 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.

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

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 and equipment 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 472 Billed Entity Applicant Reimbursement (BEAR), 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 and BEAR forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the SPI and BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate 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 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 2017 commitments and disbursements made from the E-rate Program.

Findings, Recommendations and Beneficiary Responses

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

Finding No. **SL2018BE019-F01: Beneficiary Over-Invoiced SLP for Services and Equipment Not Received**

Condition Per review of the FCC Form 472 and the related service provider bills, we determined the Beneficiary invoiced the SLP for 137 cable drops under FRN 1799009452. During our site visit on November 7 - 8, 2018 to the Beneficiary's High School, there were 11 cable drops out of the 137 purchased and invoiced to the SLP that could not be located.

Cause The Beneficiary did not have an effective review and reconciliation process to ensure that all cable drops purchased with E-rate Program funds were installed.

Effect The monetary effect of this finding is \$1,356 for FRN 1799009452. The amount represents the undiscounted equipment charges totaling \$1,595 multiplied by the Beneficiary's discount rate of 85 percent.

Recommendation KPMG recommends that the Beneficiary implement formal policies and procedures to ensure equipment purchased through the E-rate Program is installed and in use for a reasonable period of time in compliance with FCC Rules. In addition, the Beneficiary should implement appropriate processes to ensure equipment purchased using E-rate Program funding is necessary and effectively used at the location requested for the specified purpose.

Beneficiary Response Based on our records and review of the construction/installation process, we've concluded that the number of drops proposed and invoiced by the service provider was not correlative with the number of drops actually installed. We are implementing systems for future projects to inventory every piece of equipment and element of installation (including drops) prior to declaring a project complete and finalizing payment to a service provider.

Finding No. **SL2018BE019-F02: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice**

Condition The Beneficiary could not provide any evidence to support that a public meeting was held in order to discuss the Children's Internet Protection Act (CIPA) and the Beneficiary's Internet Safety Policy during Funding Year 2017.

However, on November 12, 2018, during the course of the audit although outside of the audit period, the Beneficiary advertised and held a public meeting where CIPA and the Internet Safety Policy were discussed.

Cause The Beneficiary did not demonstrate sufficient knowledge of the Rules governing CIPA and the Internet Safety Policy in relation to providing public notice and holding a public meeting to discuss the policy. In addition, the Beneficiary did not have adequate documentation or data retention policies and procedures to ensure that records that demonstrate CIPA compliance were properly retained.

Effect There is no monetary effect for this finding, as the Beneficiary rectified the issue.

Recommendation KPMG recommends that the Beneficiary implement controls and procedures to ensure compliance with the CIPA requirements and ensure that adequate records related to providing public notice and holding a public meeting to discuss the Internet Safety Policy are retained.

Beneficiary Response Our record keeping of CIPA compliance related activities during the audit year was not sufficient. We are implementing systems to periodically review CIPA compliance and ensure that all documentation relating to CIPA is retained both in hard and soft copy.

Criteria

Finding	Criteria	Description
#1	FCC Form 472 (BEAR) User Guide at 5.A (April 2017).	“The discount amounts listed in this Billed Entity Applicant Reimbursement Form represent charges for eligible services and/or equipment delivered to and used by eligible schools, libraries, or consortia of those entities for educational purposes, on or after the service start date reported on the associated FCC Form 486.”
#1	<i>Third Report and Order and Second Notice of Proposed Rulemaking.</i> ⁵	“Recipients of support are expected to use all equipment purchased with universal service discounts at the particular location, for the specified purpose for a reasonable period of time.”
#2	47 C.F.R. § 54.516(a) (2016).	“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

⁵ *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, 18 FCC Rcd 26912, 26923, para. 26 (2003) (“*Third Report and Order*”).

Finding	Criteria	Description
		for a period of 10 years after purchase.”
#2	47 C.F.R. § 54.520(h) (2016).	“Public notice; hearing or meeting. A school or library shall provide reasonable public notice and hold at least one public hearing or meeting to address the proposed Internet safety policy.”

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified two findings, Beneficiary Over-Invoiced SLP for Services and Equipment Not Received and Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice. 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
Internal Connections	\$1,356	\$1,356
Total Impact	\$1,356	\$1,356

KPMG recommends that the Beneficiary implement formal policies and procedures to ensure compliance with FCC Rules and ensure that equipment purchased through the E-rate Program is installed and in use for a reasonable period of time, implement appropriate processes to ensure equipment purchased using E-rate Program funding is necessary and effectively used at the location requested for the specified purpose, and implement controls and procedures to ensure that adequate records related to providing public notice and holding a public meeting to discuss the Internet Safety Policy are retained in compliance with CIPA requirements.

*Environmental Charter Schools
Audit ID: SL2018BE015
(BEN: 16056748)*

*Performance audit for the Universal Service Schools and
Libraries Program Disbursements related to Funding
Year 2017 as of February 20, 2019*

Prepared for: Universal Service Administrative Company

As of Date: June 4, 2019

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES..... 5

 Background..... 5

 Program Overview 5

 Beneficiary Overview 5

 Objectives 6

 Scope..... 6

 Procedures..... 7

RESULTS 9

 Findings, Recommendations and Beneficiary Responses..... 9

 Conclusion 9

List of Acronyms

Acronym	Definition
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
ECS	Environmental Charter Schools
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 2017	The twelve-month period from July 1, 2017 to June 30, 2018 during which E-rate Program support is provided (as of February 20, 2019)
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

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. The discount rate reduction for voice services in Funding Year 2017 is 60%. 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 \$252,642 and disbursements of \$83,918 made for Funding Year 2017.

Beneficiary Overview

Environmental Charter Schools (BEN# 16056748) is a school district located in Gardena, California, that serves over 1,100 students in grades 6 through 12. There are three campuses that comprise ECS: Environmental Charter Middle School – Gardena, Environmental Charter Middle School – Inglewood and Environmental Charter High School – Lawndale.

The following table illustrates the E-rate Program support committed and disbursed by USAC to the Beneficiary for Funding Year 2017 by service type:

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$ 124,200	\$ 0
Voice Services	\$ 9,908	\$ 7,118
Internal Connections	\$ 118,534	\$ 76,800
Total	\$ 252,642	\$ 83,918

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 2017. The amounts disbursed represent disbursements made from the E-rate Program by service type related to Funding Year 2017 as of February 20, 2019. We extended the 'as of' date from November 30, 2018 to February 20, 2019 in order to include Internal Connections disbursements.

The committed total represents one FCC Form 471 application with nine FRNs. We selected eight FRNs, which represent \$252,460 of the funds committed and \$83,918 of the funds disbursed for the audit period, to perform the procedures enumerated below related to the Funding Year 2017 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 \$252,642 and disbursements of \$83,918 made from the E-rate Program for Funding Year 2017. 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 2017 and disbursements received, 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 Funding Year 2017.

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 and received by the Beneficiary for Funding Year 2017. 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.

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

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 prior to the submission of the FCC Form 471. We evaluated the services and equipment 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 472 Billed Entity Applicant Reimbursements (BEARs), FCC Form 474 Service Provider Invoices (SPIs) and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine whether the Beneficiary paid its non-discounted share in a timely manner.

5. Site Visit

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 and BEAR forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the SPI

and BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate 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 2017 commitments and disbursements made from the E-rate Program.

Findings, Recommendations and Beneficiary Responses

KPMG's performance audit procedures identified no findings.

Conclusion

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 identified no findings relative to Funding Year 2017 commitments and disbursements made from the E-rate Program for the audit period.