Briefing book excludes all materials discussed in Executive Session.

Universal Service Administrative Co.

Schools and Libraries Committee

Audit Briefing Book

Monday, October 28, 2019

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

Universal Service Administrative Company Offices

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

Washington, D.C. 20005

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

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect*	USAC Management Recovery Action	Commitment Adjustment	Entity Disagreement
Cesar Chavez Academy **Attachment A**	1	• Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process - Beneficiary did not provide bid evaluation documentation to support that the most cost effective bids were selected.	$71,856	$70,254	$70,254	$0	N
Richard Milburn Academy **Attachment B**	3	• Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process – The Beneficiary did not provide Service Provider bids or bid evaluations to support that the most cost effective bids were selected. • Service Provider Over-Invoiced SLP for Services and Equipment Delivered to Ineligible Locations – The Beneficiary received disbursements for Internet	$73,695	$32,238	$32,238	$36,394	N

		access services at the Midland location after the campus was no longer operating.					
Total	**4**		**$145,551**	**$102,492**	**$102,492**	**$36,394**	

Note: In July 2019, AAD also released one confidential audit, USAC Audit No. SL2017LR050, which will be presented in ***Executive Session*** at the October 28, 2019 Schools and Libraries Committee Meeting.

** 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.

KPMG

Cesar Chavez Academy
Audit ID: SL2018BE011
(BEN: 54942)

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: July 1, 2019

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

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KPMG

KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

EXECUTIVE SUMMARY

July 1, 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 Cesar Chavez Academy, Billed Entity Number ("BEN") 54942, ("CCA" or "Beneficiary") for disbursements of $71,856 and commitments of $77,670, 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 November 21, 2018 to July 1, 2019, and our results are as of July 1, 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 $77,670 and disbursements of $71,856 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 $70,254 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 July 1, 2019.

KPMG

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
CCA	Cesar Chavez Academy
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 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
SL2018BE011-F01: Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process – Beneficiary was unable to provide bid evaluation documentation to sufficiently support that the most cost effective bids were selected.	$70,254	$70,254
Total Net Monetary Effect	**$70,254**	**$70,254**

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
1799069210	$69,725
1799069326	$529
Total	**$70,254**

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 $77,670 and disbursements of $71,856 made for Funding Year 2017.

Beneficiary Overview

The Cesar Chavez Academy (BEN# 54942) is a Charter School located in Detroit, Michigan that serves more than 2,300 students from kindergarten to high school across five annexes.

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	$69,725	$69,725
Voice Services	$ 7,945	$ 2,131
Total	**$77,670**	**$71,856**

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 one FCC Form 471 application with four FRNs. We selected all four FRNs with committed funds, which represent $77,670 of the funds committed and $71,856 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. During the course of our audit, we noted one of the four FRNs was cancelled via FCC Form 500, and therefore we did not test that FRN, which represented $5,814 of the funds committed.

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 $77,670 and disbursements of $71,856 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. Beneficiary Locations
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 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) 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. **Beneficiary Locations**

   For the FRNs audited, we used inquiry to determine whether the services were provided to eligible facilities and utilized in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the services for which funding was requested. We also evaluated the 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 BEAR forms for services provided to the Beneficiary. We verified that the services claimed on the BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate 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

Considering that the above audit procedures were performed for all four of the Beneficiary's FRNs, KPMG concluded that expansion of the scope of the audit was not warranted since all FRNs related to Funding Year 2017 were selected for testing.

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. **SL2018BE011-F01: Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process**

Condition

The Beneficiary was unable to provide bid evaluation documentation to sufficiently support that the most cost effective bid was selected for FRNs 1799069326 and 1799069210.

For FRN 1799069326, three bids were received by the Beneficiary for cellular services. The incumbent Service Provider had the highest monthly cost and was selected. Per inquiry, the Beneficiary stated that switching service providers would have required the purchase of new cellular telephones. As indicated by the Beneficiary via email during the audit, Academy personnel "already had iPhones (top of the line) for the selected service provider" and the school "would have had to order all new phones." However, through review of the iPhone 7 (model #A1660) and the 7 Plus (model #A1661) technical specifications, the latest iPhone models during the audit period, we confirmed the devices had the capability to be utilized on the network of both service providers who submitted lower cost bids.

For FRN 1799069210, three bids were received by the Beneficiary for multi-year Internet access services during Funding Year 2015. The bid evaluation documentation was not retained. In reviewing the bid proposals, KPMG noted that the winning bid had the highest monthly cost, which was about 40% higher than the second highest bid. Therefore, the Beneficiary did not select the lowest cost bid and could not provide documentation to support the selection made was cost effective.

Cause

Although the Beneficiary has a document retention policy in place, certain E-rate documentation could not be located. The E-rate Coordinator who oversaw the competitive bidding process in question no longer works at CCA. There were no controls in place to ensure compliance with documentation retention requirements as set forth in the Rules.

Effect

The monetary effect of this finding is $70,254, which represents the amounts disbursed for FRNs 1799069210 and 1799069326.

Recommendation

The Beneficiary should implement controls to ensure the retention of documentation to support that the most cost effective bid is selected.

Beneficiary Response

While there is a document retention policy currently for all E-rate documentation, the beneficiary recognizes the deficiency in ensuring compliance with the documentation requirements set forth in the rules. The beneficiary's current E-rate coordinator has implemented additional policies and procedures to retain E-rate documentation 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(s).

This includes a filing schedule to:

1. Keep all draft FCC 470 form(s)
2. Keep all draft RFP documentation that accompanies a given FCC form 470
3. Retain the certified FCC form(s) 470
4. Retain specific files for all public inquiries from service providers during the allowable contract selection date window.
5. Keep the completed vendor bid evaluation matrix (and notes) including all relevant factors with price consideration as the primary factor.
6. Retain all communications records between the bidders and the E-rate coordinator.
7. Keep any other relevant meeting notes, emails, letters or supplemental information.
8. Retain all signed proposal agreements, contracts and quotes.
9. All documentation will be stored in an electronic format on the academy's secured server.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 54.511(a) (2016)	"*Selecting a provider of eligible services.* 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	47 C.F.R. § 54.516(a)(1) (2016)	"*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."
#1	47 C.F.R. § 54.516(b) (2016)	"*Production of records.* Schools, libraries, consortia, and service providers shall produce such records at the request of any representative (including any auditor) appointed by a state education department, the Administrator, the FCC, or any local, state or federal agency with jurisdiction over the entity."
#1	*Schools and Libraries*	"[W]e amend section 54.516 of our rules to require both applicants and service providers to retain all records related to the application

Finding	Criteria	Description
	Universal Service Support Mechanism, CC Docket No. 02-6, Fifth Report and Order, 19 FCC Rcd. 15808, 15823-24, para. 47-48 (2014) (*Fifth Report & Order*)	for, receipt, and delivery of discounted services for a period of five years after the last day of service delivered for a particular Funding Year....All documents used during the competitive bidding process must be retained. Beneficiaries must retain documents such as: Request(s) for Proposals (RFP(s)) including evidence of publication date; documents describing the bid evaluation criteria and weighting, as well as the bid evaluation worksheets; all written correspondence between the beneficiary and prospective bidders regarding the products and services sought; all bids submitted, winning and losing; and all documentation related to the selection of service provider(s)."

Conclusion

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

The combined estimated monetary effect of this finding is as follows:

Service Type	Monetary Effect of Audit Results	Recommended Recovery
Internet Access	$ 69,725	$ 69,725
Voice Services	$ 529	$ 529
Total Impact	**$70,254**	**$70,254**

KPMG recommends that the Beneficiary retain bid evaluation documentation to support that the most cost effective bid is selected.

KPMG

Richard Milburn Academy
Audit ID: SL2018BE013
(BEN: 227228)

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: June 26, 2019

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

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KPMG

KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

EXECUTIVE SUMMARY

June 26, 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 Richard Milburn Academy, Billed Entity Number ("BEN") 227228, ("RMA" or "Beneficiary") for disbursements of $73,695 and commitments of $91,840, 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 12, 2018 to June 26, 2019, and our results are as of June 26, 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 $91,840 and disbursements of $73,695 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 three findings as discussed in the Audit Results and Commitment Adjustment/Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to Funding Year 2017 were $32,238 higher than they would have been had the amounts been reported properly. Further, we estimate that commitments made to the Beneficiary from the E-rate Program related to Funding Year 2017 were $36,394 higher than they should have been as a result of the three identified findings.

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.

KPMG

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated June 26, 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
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BEN	Billed Entity Number
BMIC	Basic Maintenance of Internal Connections
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FCC	Federal Communications Commission
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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 2016	The twelve-month period from July 1, 2016 to June 30, 2017 during which E-rate Program support is provided
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
Mbps	Megabytes per second
MIBS	Managed Internal Broadband Services
RMA	Richard Milburn Academy
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
TEA	Texas Education Agency
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery	Recommended Commitment Adjustment
SL2018BE013-F01: Lack of Documentation – Beneficiary Did Not Substantiate the Competitive Bidding Process – The Beneficiary could not provide Service Provider bids or bid evaluations related to FRNs 1799105174, 1799105653 and 1799105992.	$22,387	$22,387	$26,543
SL2018BE013-F02: Service Provider Over-Invoiced SLP for Services and Equipment Delivered to Ineligible Locations – For FRN 1799105950, the Beneficiary received disbursements for Internet access services at the Midland location after the campus was no longer operating.	$9,851	$9,851	$9,851
SL2018BE013-F03: Beneficiary Over-Invoiced SLP for Duplicative Services – The Beneficiary invoiced SLP under FRNs 1799105174 and 1799105653 for duplicative Internet access services at the Pasadena location.	$0	$0*	$0*
Total Net Monetary Effect	**$32,238**	**$32,238**	**$36,394**

*Note: For SL2018BE013-F03, the Monetary Effect and Recommended Recovery are $0 as there were no disbursements for FRN 1799105174 as of September 30, 2018. However, we noted that as of March 25, 2019, $1,864 has now been disbursed for FRN 1799105174. Additionally, the Recommended Commitment Adjustment is $0, as the commitment amount of $2,406 for Internet access services is included in the Recommended Commitment Adjustment for FRN 1799105174 in SL2018BE013-F01.

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 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).

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). USAC also offers a Billed Entity Applicant Reimbursement (BEAR) form training website where applicants can practice filing the FCC Form 472 (BEAR form) available at (https://www.usac.org/sl/about/outreach/bear-training-site.aspx). Information about invoicing for service providers is available in the presentations entitled "Introduction to Invoicing" and "Advanced Invoicing" available at (https://www.usac.org/sl/about/outreach/2018-training.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
1799105992	$15,838	$1,659
1799105653	$6,549	$91
1799105950	$9,851	$0
1799105174	$1,864	$542
Total	**$34,102**	**$2,292**

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 $91,840 and disbursements of $73,695 made for Funding Year 2017.

Beneficiary Overview

Richard Milburn Academy (BEN# 227228) is a school district located in McQueeney, Texas, that serves over 2,000 students in grades 9 through 12. There are ten campuses in the following cities that comprise RMA: Amarillo, Corpus Christi, Fort Worth, Houston, Killeen, Lubbock, Midland, Midland South, Odessa and Pasadena.

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	$79,591	$73,695
Voice Services	$12,249	$ 0
Total	**$91,840**	**$73,695**

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 one FCC Form 471 application with 24 FRNs. We selected 13 FRNs, which represent $88,005 of the funds committed and $73,695 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 $91,840 and disbursements of $73,695 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. Beneficiary Locations
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 requested and purchased for cost effectiveness as well.

   We utilized alternative procedures for two of 13 FRNs that were selected for testing. For one FRN, we compared competitive bidding information to a similar FRN where the competitive bidding evaluation was fully documented, the same Service Provider was selected, and the services and locations were comparable as the Beneficiary could not provide competitive bidding support. For another FRN, we compared Funding Year 2016 invoices to Funding Year 2017 invoices to determine that the pricing of eligible services by the incumbent Service Provider was comparable to the other Service Provider bid received as the bid evaluation completed for Funding Year 2017 did not include information related to the incumbent Service Provider who was selected.

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. **Beneficiary Locations**

   For the FRNs audited, we used inquiry to determine whether the services were provided to eligible facilities and utilized in accordance with the Rules. We evaluated whether the Beneficiary had the necessary resources to support the services for which funding was requested. We also evaluated the 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 BEAR and SPI forms for services provided to the Beneficiary. We verified that the services claimed on the BEAR and SPI forms and corresponding Service Provider bills were consistent with the terms and specifications of the Service Provider agreements and eligible in accordance with the E-rate 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 three findings. The findings, including the condition, cause, effect, recommendation, Beneficiary response and Service Provider response, as applicable, are as follows:

Finding No. **SL2018BE013-F01: Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process**

Condition For three of the 13 FRNs tested, the Beneficiary could not provide supporting documentation including bid proposals received related to the Service Provider selection process. Due to the lack of documentation provided, KPMG was unable to substantiate that the Beneficiary selected the most cost effective service provider for FRNs 1799105992, 1799105653 and 1799105174.

See table below for the FRNs which competitive bidding support was not provided:

FRN No.	Service Type	Disbursement Amount
1799105992	Internet Access	$ 15,838
1799105653	Internet Access	$ 6,549
1799105174	Internet Access	$ 0

Cause The Beneficiary did not have controls in place to ensure bids received, bid evaluation worksheets and all documentation related to the selection of Service Providers was sufficiently retained.

Effect The monetary effect of this finding is $22,387 which represents disbursed funds for FRNs 1799105992, 1799105653 and 1799105174.

Recommendation KPMG recommends the Beneficiary develop and implement a comprehensive document retention policy for competitive bidding documentation including Requests for Proposals (RFPs) with evidence of publication date; documents describing the bid evaluation criteria and weighting; the bid evaluation worksheets; all bids submitted, winning and losing; and all documentation related to the selection of Service Providers.

Beneficiary Response We agree with the audit finding and understand the monetary effect. We will comply with the audit recommendation to implement adequate document retention and review procedures. In addition, we have already implemented a process with our new E-Rate consultant that includes their oversight of our competitive bidding process and also utilizes their server/cloud based document management system to store our E-Rate documents.

Finding No.	**<u>SL2018BE013-F02: Service Provider Over-Invoiced SLP for Services and Equipment Delivered to Ineligible Locations</u>**
Condition	For FRN 1799105950, the RMA Midland location received E-rate Program disbursements for Internet access services for the months of July 2017 through January 2018. However, on August 22, 2017, RMA closed their Midland location and did not submit an FCC Form 500 to notify USAC of this closure. Therefore, the Beneficiary received disbursements for a period of five months and eight days during which the campus was not operating.
Cause	There was a lack of communication and understanding between the Service Provider and Beneficiary regarding the closure of the Midland location. In addition, the Beneficiary and Service Provider did not have adequate review procedures in place to ensure that SPI filings were only for eligible locations that were fully operational.
Effect	The monetary effect of this finding is $9,851 which represents disbursed funds for FRN 1799105950.
Recommendation	The Beneficiary should implement adequate review procedures with Service Providers for all SPI filings to ensure that only eligible (fully operational) locations are requesting and receiving E-Rate Program disbursements.
Beneficiary Response	We agree with the audit finding and understand the monetary effect. We will comply with the audit recommendation to implement adequate review procedures.
Finding No.	**<u>SL2018BE013-F03: Beneficiary Over-Invoiced SLP for Duplicative Services</u>**
Condition	For FRN 1799105653, the Beneficiary requested and was awarded Internet access at 100Mbps for their Pasadena location via their Funding Year 2016 FCC Form 470 (160024219). During 2016, the Beneficiary established a multi-year contract with a Service Provider for these services that remained in effect throughout Funding Year 2017. Subsequently, in Funding Year 2017, the Beneficiary re-requested and was awarded the same Internet access under FRN 1799105174 at their Pasadena location via FCC Form 470 (170080991). As a result, the Beneficiary received E-rate Program funding for 100Mbps of Internet access at their Pasadena location under both FRNs 1799105653 and 1799105174 during Funding Year 2017. KPMG considered funding under FRN 1799105174 to be duplicative.
Cause	The Beneficiary did not have an established process to obtain, review and reconcile the SPI forms submitted by the Service Providers in order to avoid any duplication of service disbursements from USAC.
Effect	The monetary effect of this finding is $0 which represents disbursed funds for FRN 1799105174 as of September 30, 2018. The recommended commitment adjustment is $2,406.

Recommendation The Beneficiary should establish a process to obtain, review and reconcile all SPI forms submitted by the Service Provider in order to avoid duplication of services at its locations.

Beneficiary Response We agree with the audit finding and understand the monetary effect. We will comply with the audit recommendation to implement adequate review procedures.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 54.516(a)(1) (2016).	"*Schools, libraries, and consortia.* Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase."
#1	*Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, 19 FCC Rcd. 15808, 15823-24, para. 47-48 (2004) (*Fifth Report & Order*).	"[W]e amend section 54.516 of our rules to require both applicants and service providers to retain all records related to the application for, receipt, and delivery of discounted services for a period of five years after the last day of service delivered for a particular Funding Year....All documents used during the competitive bidding process must be retained. Beneficiaries must retain documents such as: Requests for Proposals (RFP(s)) including evidence of publication date; documents describing the bid evaluation criteria and weighting, as well as the bid evaluation worksheets; regarding the products and services sought; all bids submitted, winning and losing; and all documentation related to the selection of service providers."
#2	47 C.F.R. § 54.501(a)(1) (2016).	"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."
#2	Schools and Libraries (E-rate) Program FCC Form 474 (SPI) User Guide (April 2016).	"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."

Finding	Criteria	Description
#3	*Fifth Report and Order*, 19 FCC Rcd. 15816-17, para. 25 (2004).	"*Duplicative Services*. As noted in the *Schools and Libraries Second Order*, our rules prohibit the funding of duplicative services, defined as **services that provide the same functionality to the same population in the same location during the same period of time.** In such circumstances, we ordinarily will recover the amount associated with the more expensive of the duplicative services, except in situations where there are indications of fraud, where we may recover the full amount of the funding request."

Conclusion

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 identified three findings, Lack of Documentation - Beneficiary Did Not Substantiate the Competitive Bidding Process, Service Provider Over-Invoiced SLP for Services and Equipment Delivered to Ineligible Locations and Beneficiary Over-Invoiced SLP for Duplicative Services. 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	Recommended Commitment Adjustment
Internet Access	$32,238	$32,238*	$36,394
Total Impact	**$32,238**	**$32,238**	**$36,394**

*Note: For SL2018BE013-F03, the Monetary Effect and Recommended Recovery are $0 as there were no disbursements for FRN 1799105174 as of September 30, 2018. However, we noted that as of March 25, 2019, $1,864 has now been disbursed for FRN 1799105174.

KPMG recommends that the Beneficiary implement formal policies and procedures to ensure compliance with the FCC Rules, specifically around the retention of all documentation related to the competitive bidding process, and adequate review (with Service Providers) of SPI forms, ensuring that there is no duplication of services and only fully operational locations are receiving E-Rate Program disbursements.

*Summary of Schools and Libraries Support Mechanism Beneficiary Audit Reports Released: August 7, 2019**

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect**	USAC Management Recovery Action***	Commitment Adjustment	Entity Disagreement
Newman International Academy **Attachment C**	3	• Failure to Execute a Contract Prior to Submission of FCC Form 471 - The Beneficiary did not have a signed contract or legally binding agreement for internet access services prior to the submission of FCC Form 471. • Beneficiary Over-Invoiced SLP for Services Delivered to Locations Not Requested in Its FCC Form 471 – In its FCC Form 471, the Beneficiary did not include Newman International Academy of Pioneer in its request for services; however, this entity received disbursements for internet access services.	$83,281	$45,395	$42,056	$70,290	Y

Entity Name	Number of Findings	Significant Findings	Amount of Support	Monetary Effect**	USAC Management Recovery Action***	Commitment Adjustment	Entity Disagreement
Great Oaks Legacy Charter School **Attachment D**	3	• Beneficiary Over-Invoiced SLP for Ineligible Services and Equipment - The Beneficiary included ineligible costs in the amount requested on the FCC Form 472.	$93,960	$1,327	$1,327	$0	Y
Intrepid College Preparatory **Attachment E**	4	• Beneficiary Over-Invoiced SLP for Services and Equipment Not Received - The Beneficiary invoiced the SLP for equipment not received or placed in use. • Beneficiary Over-Invoiced SLP for Services Not Requested - The Beneficiary invoiced SLP for bundled network monitoring services that were not requested in the FCC Form 471.	$42,372	$5,361	$4,826	$0	N
Total	**10**		**$219,613**	**$52,083**	**$48,209**	**$70,290**	

Note:* In August 2019, AAD also released two confidential audits, USAC Audit Nos. SL2017LR028 and SL2017LR038, which will be presented in ***Executive Session* at the October 28, 2019 Schools and Libraries Committee Meeting.

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

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

KPMG

Newman International Academy Audit ID: SL2018BE016 (BEN: 17001300)

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: July 8, 2019

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

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KPMG

KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

EXECUTIVE SUMMARY

July 8, 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 Newman International Academy, Billed Entity Number ("BEN") 17001300, ("NIA" or "Beneficiary") for disbursements of $83,281 and commitments of $124,035, 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 11, 2018 to July 8, 2019, and our results are as of July 8, 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 $124,035 and disbursements of $83,281 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 three findings as discussed in the Audit Results and Commitment Adjustment/Recovery Action section as a result of the work performed. Based on these results, we estimate that disbursements made to the Beneficiary from the E-rate Program related to Funding Year 2017 were $42,056 higher than they would have been had the amounts been reported properly. Further, we estimate that commitments made to the Beneficiary from the E-rate Program related to Funding Year 2017 were $70,290 higher than they should have been as a result of the three identified findings.

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.

KPMG

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated July 8, 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
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
NIA	Newman International Academy
SLD	Schools and Libraries Division
SLP	Schools and Libraries Program
SPI	Service Provider Invoice
TEA	Texas Education Agency
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND COMMITMENT ADJUSTMENT/RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Overlapping Recovery[1]	Recommended Recovery	Recommended Commitment Adjustment
SL2018BE016-F01: Failure to Execute a Contract Prior to Submission of FCC Form 471 – For FRN 1799084495, the Beneficiary did not have a signed contract or legally binding agreement for internet services prior to the submission of FCC Form 471.	$42,056	$ 0	$42,056	$70,290
SL2018BE016-F02: Beneficiary Over-Invoiced SLP for Services Delivered to Locations Not Requested in Its FCC Form 471 – For FCC Form 471, the Beneficiary did not include an eligible entity (Newman International Academy of Pioneer). However, this entity received disbursements for internet access for FRN 1799084495 in Funding Year 2017.	$ 3,339	$ 3,339	$ 0	$ 0
SL2018BE016-F03: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting and Lack of Public Notice – A public meeting was neither advertised nor held to discuss CIPA and the Internet Safety Policy for Funding Year 2017.	$ 0	$ 0	$ 0	$ 0
Total Net Monetary Effect	**$45,395**	**$3,339**	**$42,056**	**$70,290**

[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 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).

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). USAC also offers a Billed Entity Applicant Reimbursement (BEAR) form training website where applicants can practice filing the FCC Form 472 (BEAR form) available at (https://www.usac.org/sl/about/outreach/bear-training-site.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	Commitment Adjustment Amount
1799084495	$42,056	$70,290

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 $124,035 and disbursements of $83,281 made for Funding Year 2017.

Beneficiary Overview

Newman International Academy (BEN# 17001300) is a school district located in Arlington, Texas that serves over 2,200 students in grades Pre-Kindergarten through 12. There are six campuses that comprise NIA: Newman International Academy of Arlington, Newman International Academy of Cedar Hill, Newman International Academy of Mansfield, Newman International Academy of Grace, Newman International Academy of Fort Worth and Newman International Academy of Pioneer.

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	$ 85,050	$44,296
Internal Connections	$ 38,985	$38,985
Total	**$124,035**	**$83,281**

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 four FRNs. We selected all four FRNs to perform the procedures enumerated below related to the Funding Year 2017 applications submitted by the Beneficiary. During the course of our audit, we noted one of the four FRNs was cancelled via FCC Form 500, and therefore we did not test that FRN, which represented $12,060 of the funds committed.

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 $124,035 and disbursements of $83,281 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 2017 FCC Form 471s. 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**

Considering that the above audit procedures were performed for all three of the Beneficiary's FRNs with disbursements, KPMG concluded that expansion of the scope of the audit was not warranted since all FRNs related to Funding Year 2017 were selected for testing.

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 three findings. The findings, including the condition, cause, effect, recommendation, and Beneficiary responses are as follows:

Finding No.	**SL2018BE016-F01: Failure to Execute a Contract Prior to Submission of FCC Form 471**
Condition	For FRN 1799084495, the Beneficiary did not have a signed contract or legally binding agreement for Internet access services prior to the submission of FCC Form 471 Number 171037712. KPMG noted that FCC Form 471 Number 171037712 was certified on May 7, 2017 and the corresponding signed contract was executed on September 7, 2017.
Cause	In this instance, an effective review process was not in place to ensure that the FCC Form 471 was submitted after a signed contract or legally binding agreement was established.
Effect	The monetary effect of this finding is $42,056 which represents disbursed funds for FRN 1799084495.
Recommendation	Prior to the submission of the FCC Form 471s, the Beneficiary should ensure that a signed contract or legally binding agreement is established for all services noted on each FCC Form 471.
Beneficiary Response	The quote signed May 1, 2017 should be the Contract Award Date (CAD) for the FRN in question. Service was posted, bids assessed, awarded, proposal signed & dated and submitted within window. Due to time constraints vendor could not provide all additional documentation at the time of bid acceptance. Once established NIA proceeded to sign all additional paperwork on September 7, 2017. The additional documentation was based off the original quote provided per vender. The new documentation contained adjustments which should be considered as service substitutions as the overall intent of service did not change. These changes were put in place to drive down the overall awarded costs. The circuit speed at Mansfield for 100mbps and the circuit speed at Arlington for 500mbps did not change. This new service agreement did not go into effect until November 2017 via a new account number 831-000-7442 507. If the initial contract signed is deemed ineligible than all costs prior to this date on account number 831-000-6580 115 should be considered eligible until the new service transitioned.
KPMG Response	KPMG received and reviewed the above mentioned quote as part of our testing and noted the following:

- The document was titled E-Rate Proposal and did not include a signature and date block or an acceptance page.
- The Beneficiary's signature on the first page included the note "Reviewed."
- The pricing from this proposal does not agree to the pricing in the executed contract, dated September 7, 2017.

Based on these observations and regardless of when the services actually began, there did not appear to be a legally binding agreement in place prior to the filing of the FCC Form 471, as required by FCC rules.

Finding No.	**SL2018BE016-F02: Beneficiary Over-Invoiced SLP for Services Delivered to Locations Not Requested in Its FCC Form 471**
Condition	The FCC Form 471 Number 171037712 filed by the Beneficiary did not include all of the entities that received disbursement for services. KPMG noted that the Beneficiary's Pioneer campus opened during Funding Year 2017 but was not included in the FCC Form 471, however this entity received disbursements totaling $3,339 for Internet access during Funding Year 2017.
Cause	In this instance, an effective review process was not in place to ensure that the FCC Form 471 was prepared correctly prior to submission.
Effect	The monetary effect of this finding $3,339 which represents a portion of disbursed funds for FRN 1799084495.
Recommendation	The Beneficiary should implement a more complete review process to ensure all entities for which E-rate Program funded services are requested and disbursed are listed on the appropriate FCC Form 471.
Beneficiary Response	Newman International Academy has moved control and management of the site info, student counts, budgets and contracts to the business office to ensure ongoing future accuracy.

Finding No.	**SL2018BE016-F03: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting and Lack of Public Notice**
Condition	The Beneficiary could not provide any evidence to support that a public meeting was held in order to discuss CIPA and an Internet Safety Policy during Funding Year 2017. However, on January 26, 2019, during the course of the audit although outside of the audit period, the Beneficiary publicly advertised and held public meetings to discuss CIPA at the Newman International Academy of Arlington campus 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 a public notice and holding a public meeting to discuss the policy.

Effect	There is no monetary effect for this finding. There is no monetary effect for this finding. The Beneficiary held the required public meeting in January 2019.
Recommendation	KPMG recommends that the Beneficiary implement procedures to ensure compliance with the CIPA requirements and ensure that adequate records related to providing a public notice and holding a public meeting to discuss the Internet Safety Policy are retained.
Beneficiary Response	Newman International Academy will continue to monitor and update their CIPA compliance and make changes when necessary.

Criteria

Finding	Criteria	Description
#1 and #2	47 C.F.R. § 54.504(a) (2016)	"Filing of the FCC Form 471. An eligible school, library, or consortium that includes an eligible school or library seeking to receive discounts for eligible services under this subpart shall, upon entering into a signed contract or other legally binding agreement for eligible services, submit a completed FCC Form 471 to the Administrator."
#2	Schools and Libraries (E-rate) Program, FCC Form 472 (BEAR) User Guide, at 18.	"The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by USAC pursuant to a Funding Commitment Decision Letter (FCDL)."
#3	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 for a period of 10 years after purchase."
#3	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 three findings: Failure to Execute a Contract Prior to Submission of FCC Form 471, FCC Form 471 - Entity Not Included and Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting and 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	Overlapping Recovery	Recommended Recovery	Recommended Commitment Adjustment
Internet Access	$45,395	$3,339	$42,056	$70,290
Total Impact	**$45,395**	**$3,339**	**$42,056**	**$70,290**

KPMG recommends that the Beneficiary implement formal policies and procedures to ensure compliance with the FCC Rules, specifically around having a fully executed contract with a Service Provider prior to the submission of the FCC Form 471 and ensuring all eligible entities are listed on the FCC From 471 prior to submission. KPMG also recommends 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.

Great Oaks Legacy Charter School Audit ID: SL2018BE020 (BEN: 17011781)

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: July 18, 2019

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

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

EXECUTIVE SUMMARY

July 18, 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 Great Oaks Legacy Charter School, Billed Entity Number ("BEN") 17011781, ("GOLCS" or "Beneficiary") for disbursements of $93,960 and commitments of $231,971, 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 25, 2018 to July 18, 2019, and our results are as of July 18, 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 $231,971 and disbursements of $93,960 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 three 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 $1,327 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 July 18, 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
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)
GB	Gigabyte
GOLCS	Great Oaks Legacy Charter School
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
UPS	Uninterruptible Power Supply
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Recommended Recovery
SL2018BE020-F01: Beneficiary Over-Invoiced SLP for Ineligible Services and Equipment – The Beneficiary included ineligible costs in the amount requested per the BEAR invoice.	$1,327	$1,327
SL2018BE020-F02: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice – A public meeting was neither advertised nor held to discuss CIPA and the Internet Safety Policy for Funding Year 2017.	$ 0	$ 0
SL2018BE020-F03: Failure to file a Service Substitution – The Beneficiary failed to file a service substitution related to the purchase of Meraki switches and a UPS system.	$ 0	$ 0
Total Net Monetary Effect	**$1,327**	**$1,327**

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 FRNs that fall under these findings there may be additional recoveries or adjustments.

USAC will request 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).

USAC also directs the Beneficiary to USAC's website under "Reference Area" for guidance on Service Substitutions available at (https://www.usac.org/sl/applicants/before-youre-done/service-substitutions.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
1799034466	$360
1799034470	$967
Total	**$1,327**

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.

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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 $231,971 and disbursements of $93,960 made for Funding Year 2017.

Beneficiary Overview

The Great Oaks Legacy Charter School (GOLCS) (BEN# 17011781) is a charter school located in Newark, New Jersey that serves over 1,000 students in grades Pre-Kindergarten through 12. There are four campuses that comprise GOLCS: Legacy Elementary/Middle School, Downtown Elementary School, Downtown Middle School, and the 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	$165,846	$ 54,847
Internet Access	$ 41,158	$ 38,253
Basic Maintenance of Internal Connections	$ 23,964	$ 0
Voice Services	$ 1,003	$ 860
Total	**$231,971**	**$ 93,960**

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 three FCC Form 471 applications with ten FRNs. We selected eight FRNs, which represent $231,688 of the funds committed and $93,820 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. During the course of our audit, we noted one of the eight FRNs was cancelled via FCC Form 500, and therefore we did not test that FRN, which represented $23,964 of the funds committed.

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 $231,971 and disbursements of $93,960 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 three findings. The findings, including the condition, cause, effect, recommendation, and Beneficiary response are as follows:

Finding No. **SL2018BE020-F01: Beneficiary Over-Invoiced SLP for Ineligible Services and Equipment**

Condition Per review of the Beneficiary's FCC Form 472 (Form Number 2765778) and the related invoices, we determined that the Beneficiary invoiced the SLP for the bundled cost of voice and data under FRNs 1799034466 and 1799034470 that were both related to requests for Internet Access services. The Beneficiary incorrectly included the cost of voice services in the reimbursement requested from SLP for the first five months of Funding Year 2017 and appropriately excluded the cost for voice services for the remaining portion of the Funding Year 2017. The resulting monetary impact caused by the bundling of eligible and ineligible services within the service provider bills that support the FCC Form 472 for each FRN is shown in the tables below:

Month	FRN 1799034466			
	Originally Invoiced (Voice and Data)	**Data Only (Pre-discount)**	**Voice Only (Pre-discount)**	**Monetary effect (Voice – post-discount – 90%)**
July 2017	$ 268	$185	$ 83	$ 75
August 2017	$ 263	$185	$ 78	$ 70
September 2017	$ 263	$185	$ 78	$ 70
October 2017	$ 264	$185	$ 79	$ 71
November 2017	$ 264	$182	$ 82	$ 74
Total	**$1,322**	**$922**	**$400**	**$360**

Month	FRN 1799034470			
	Originally Invoiced (Voice and Data)	**Data Only (Pre-discount)**	**Voice Only (Pre-discount)**	**Monetary effect (Voice – post-discount – 90%)**
July 2017	$ 392	$185	$ 207	$186
August 2017	$ 394	$185	$ 209	$188
September 2017	$ 391	$185	$ 206	$186
October 2017	$ 397	$185	$ 212	$191
November 2017	$ 392	$152	$ 240	$216
Total	**$1,966**	**$892**	**$1,074**	**$967**

Cause	The Beneficiary did not have an effective review and reconciliation process over the BEAR process to validate that only eligible costs within the applicable FRN were submitted for reimbursement from the E-rate Program.
Effect	The monetary effect of this finding is $360 for FRN 1799034466 and $967 for FRN 1799034470. The total monetary effect of $1,327 represents the undiscounted ineligible costs of $1,474 multiplied by the Beneficiary's discount rate of 90%.
Recommendation	KPMG recommends the Beneficiary enhance its review process of BEAR submissions to ensure that all ineligible services within the applicable FRN are identified and removed from E-rate Program reimbursement requests.
Beneficiary Response	We do not dispute the error in reimbursement identified by the audit. We agree with the calculation of the over-funding. We will revise our reimbursement submission process to insure multiple reviewers prior to a reimbursement being submitted for funding to prevent a similar error from occurring in the future.

Finding No.	**SL2018BE020-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 prior to or during Funding Year 2017.
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. The Beneficiary plans to hold the required public meeting in Funding Year 2019.
Recommendation	KPMG recommends the Beneficiary give public notice of and conduct a public hearing in order to discuss the Internet Safety Policy and CIPA requirements. Additionally, KPMG recommends the Beneficiary implement controls and procedures to monitor ongoing compliance with CIPA requirements and to ensure adequate records demonstrating that compliance are retained.
Beneficiary Response	We are not in total agreement with the auditors. The school's CIPA rules are part of the staff and student handbooks, which are reviewed and approved by the Board of Trustees at a duly-posted public meeting. We agree that the school can do a better job of making a public notice that the CIPA policy will be discussed specifically at the public meetings where staff and student handbooks will be reviewed and we will ensure that future public notices are more explicit in that regard.
KPMG Response	KPMG acknowledges the Beneficiary's handbooks include CIPA rules, however we did not receive evidence demonstrating that public notice was given and that a

public meeting was held to specifically discuss CIPA and the Internet Safety Policy prior to or during FY2017.

Finding No. **SL2018BE020-F03: Failure to file a Service Substitution**

Condition The Beneficiary failed to file a service substitution request for the following equipment purchased with E-rate Program funding related to FRN 1799068431:

a) The Meraki MS220 series was requested on the FCC Form 471 Number 171031372; however, the Meraki MS225 series was purchased and installed at three locations (i.e., Downtown Middle School, High School and Legacy Elementary/Middle School). Upon follow-up inquiry and research, we determined that the MS220 series was discontinued and the Service Provider provided the Beneficiary with the MS225 series as a substitute. However, the specifications between the MS220 series and MS225 series are different (i.e., 1 GB uplink vs. 10 GB uplink respectively, and 48-port vs. 24-port respectively) and would have required the filing of a service substitution request. The amount invoiced for the substituted switches was the same amount as requested per the FCC Form 471.

b) The FCC Form 471 Number 171031372 lists UPS model APC SMT2000RMU2, while UPS model APC SMT3000RM2UC was purchased and installed at two locations (i.e., Downtown Middle School and Legacy Elementary/Middle School). The amount invoiced for the substituted UPS model was the same amount as requested per the FCC Form 471.

Cause The Beneficiary did not have controls in place to ensure that service substitution requests are submitted to the SLD for approval when the original eligible equipment and services requested are substituted.

Effect There is no monetary effect to this finding as the cost of the substituted equipment was not higher than the original amount requested.

Recommendation KPMG recommends the Beneficiary enhance the process and procedures around complying with FCC Rules and Regulations that require service substitution requests be filed with the SLD to ensure service substitutions are appropriately documented and approved.

Beneficiary Response We do not dispute that the service substitution was made. As the auditors note, the previously approved product was discontinued and the product purchased was the manufacturer's closest equivalent, without any change in cost. We appreciate the auditors' clarification that this circumstance still requires a service substitution request and will comply in the future.

Criteria

Finding	Criteria	Description
#1	47 C.F.R. § 54.502(a) (2016)	"*Supported services*. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms. The supported services fall within the following general categories: 1) *Category one*. Telecommunications services, telecommunications, and Internet access, as defined in §54.5 and described in the Eligible Services List are category one supported services. 2) *Category two*. Internal connections, basic maintenance and managed internal broadband services as defined in §54.500 and described in the Eligible Services List are category two supported services."
#1	Schools and Libraries (E-rate) Program, FCC Form 472 (BEAR) User Guide, at 18.	"The discount amounts listed in this Billed Entity Applicant Reimbursement Form are for eligible services and/or equipment approved by USAC pursuant to a Funding Commitment Decision Letter (FCDL)."
#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 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."
#3	47 C.F.R. § 54.504(d) (2016)	"*Service substitution*. (1) The Administrator shall grant a request by an applicant to substitute a service or product for one identified

Finding	Criteria	Description
		on its FCC Form 471 where: (i) The service or product has the same functionality; (ii) The substitution does not violate any contract provisions or state or local procurement laws; (iii) The substitution does not result in an increase in the percentage of ineligible services or functions; and (iv) The applicant certifies that the requested change is within the scope of the controlling FCC Form 470, including any associated Requests for Proposal, for the original services. (2) In the event that a service substitution results in a change in the pre-discount price for the supported service, support shall be based on the lower of either the pre-discount price of the service for which support was originally requested or the pre-discount price of the new, substituted service. (3) For purposes of this rule, the two categories of eligible services are not deemed to have the same functionality as one another."

Conclusion

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 identified three findings, Beneficiary Over-Invoiced SLP for Ineligible Services and Equipment, Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice, and Failure to file a Service Substitution. 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
Internet Access	$1,327	$1,327
Total Impact	**$1,327**	**$1,327**

KPMG recommends the Beneficiary enhance its review process of BEAR submissions to ensure that all ineligible services are identified and removed from E-rate Program reimbursement requests, give public notice of and conduct a public hearing in order to discuss the Internet Safety Policy and CIPA requirements, implement controls and procedures to monitor ongoing compliance with CIPA requirements and to ensure adequate records demonstrating that compliance are retained., and implement a service substitution approval process to ensure service substitutions are appropriately documented and approved.

Intrepid College Preparatory Audit ID: SL2018BE021 (BEN: 17013743)

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: July 9, 2019

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

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

EXECUTIVE SUMMARY

July 9, 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 Intrepid College Preparatory, Billed Entity Number ("BEN") 17013743, ("Intrepid" or "Beneficiary") for disbursements of $42,372 and commitments of $63,945, 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 November 1, 2018 to July 9, 2019, and our results are as of July 9, 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 disbursements of $42,372 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 four 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 $4,826 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.

KPMG

In addition, we also noted other matters that we have reported to the management of the Beneficiary in a separate letter dated July 9, 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
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)
Intrepid	Intrepid College Preparatory
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
UPS	Uninterruptible Power Supply
USAC	Universal Service Administrative Company
USF	Universal Service Fund

AUDIT RESULTS AND RECOVERY ACTION

Audit Results	Monetary Effect of Audit Results	Overlapping Recovery[1]	Recommended Recovery
SL2018BE021-F01: Beneficiary Over-Invoiced SLP for Services and Equipment Not Received – The Beneficiary invoiced the SLP for equipment not received or placed in use.	$3,551	$ 0	$3,551
SL2018BE021-F02: Beneficiary Over-Invoiced SLP for Services Not Requested – The Beneficiary invoiced the SLP for bundled network monitoring services that were not requested in the FCC Form 471.	$1,275	$ 0	$1,275
SL2018BE021-F03: Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice – A public meeting was neither advertised nor held to discuss CIPA and the Internet Safety Policy for Funding Year 2017.	$ 0	$ 0	$ 0
SL2018BE021-F04: Failure to file a Service Substitution – The Beneficiary failed to file a service substitution related to the purchase of a UPS system.	$ 535	$ 535	$ 0*
Total Net Monetary Effect	**$5,361**	**$ 535**	**$4,826**

*Note: For SL2018BE021-F04, the recommended recovery is $0, as the total monetary effect overlaps with SL2018BE021-F01.

[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 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).

USAC also directs the Beneficiary to USAC's website under "Reference Area" for guidance on Service Substitutions available at (https://www.usac.org/sl/applicants/before-youre-done/service-substitutions.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
1799111636	$4,826

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 $63,945 and disbursements of $42,372 made for Funding Year 2017.

Beneficiary Overview

The Intrepid College Preparatory (BEN# 17013743) is a school located in Antioch, Tennessee that serves over 380 students in grades five through ten. There are two campuses that comprise Intrepid: Opportunity Academy Middle School and Independence 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	$42,372	$42,372
Internet Access	$21,573	$ 0
Total	**$63,945**	**$42,372**

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 two FRNs. We selected both FRNs to perform the procedures enumerated below related to the Funding Year 2017 applications submitted by the Beneficiary. During the course of our audit, we noted one of the two FRNs was cancelled via FCC Form 500, and therefore we did not test that FRN, which represented $21,573 of the funds committed

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 disbursements of $42,372 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 FRN 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 FRN audited, we obtained and examined documentation to determine whether the single bid received was 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 FRN 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 FRN audited, we obtained and examined invoices for which payment was disbursed by USAC to determine that the equipment and services claimed on the FCC Form 474 Service Provider Invoice (SPI) 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 FRN 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 FRN 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 form for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the SPI form 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 FRN audited, as well as retained and provided the documentation requested in our other audit procedures.

8. Final Risk Assessment

Considering that the above audit procedures were performed for the Beneficiary's one FRN, KPMG concluded that expansion of the scope of the audit was not warranted since the one FRN related to Funding Year 2017 was selected for testing.

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 disbursements made from the E-rate Program.

Findings, Recommendations and Beneficiary Responses

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

Finding No. **SL2018BE021-F01: Beneficiary Over-Invoiced SLP for Services and Equipment Not Received**

Condition Per review of the FCC Form 474 Number 2717250 and the related invoices, the Beneficiary invoiced the SLP for 60 cable drops under FRN 1799111636. The Beneficiary could not account for six cable drops out of the 60 purchased and invoiced to the SLP at the time of the site visit on January 15, 2019 to the Beneficiary's Independence Academy location. Additionally, two of the Meraki MR42 wireless access points and the Cyberpower OR1500LCD UPS purchased with E-rate Program funding were not in use at the time of the site visit. The resulting monetary impact caused by the missing and unutilized equipment is shown in the table below:

Item	FRN 1799111636			
	Invoiced Amount	Quantity	Pre-discount amount	Monetary effect (Post-discount – 85%)
Meraki MR42 WAPs	$1,099	2	$ 2,198	$ 1,868
Cable drops	$ 225	6	$ 1,350	$ 1,148
Cyberpower OR1500LCD UPS	$ 629	1	$ 629	$ 535
Total		**9**	**$4,177**	**$3,551**

Cause The Beneficiary did not have an effective review and reconciliation process to ensure that all equipment purchased with E-rate Program funds was installed and in use.

Effect The monetary effect of this finding is $3,551, which represents the undiscounted equipment charges totaling $4,177 multiplied by the Beneficiary's discount rate of 85% for FRN 1799111636.

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

As a result of the findings by the KPMG team, the school has implemented an update to the school operations procedure to include more restrictive inventory control mechanisms design to insure more accurate asset reporting and retention.

Supporting Document [Provided to USAC Management]

- Intrepid College Prep: E-rate Standard Operating Procedures - see pgs. 15-16

Finding No.

SL2018BE021-F02: Beneficiary Over-Invoiced SLP for Services Not Requested

Condition

Per review of the FCC Form 474 Number 2717250 and the related invoices, the Beneficiary invoiced the SLP for the bundled cost of network monitoring along with the Meraki switch purchased under FRN 1799111636. The Beneficiary incorrectly included the cost of network monitoring in the reimbursement requested from SLP not knowing that the Service Provider had bundled this cost with the switch while indicating that it was free of charge on their proposal and invoice. The resulting monetary impact caused by the bundled cost of network monitoring services being included within the reimbursement request is shown in the table below:

Item	FRN 1799111636			
	Invoiced Amount	**Cost of switch without Network Monitoring**	**Pre-discount amount allocated to unrequested services**	**Monetary effect (Post-discount – 85%)**
Switch	$5,000	$3,500	$1,500	$1,275
Total	**$5,000**	**$3,500**	**$1,500**	**$1,275**

Cause

The Beneficiary did not have an effective review and reconciliation process over the SPI process to validate that only eligible costs were submitted for reimbursement from the E-rate Program.

Effect

The monetary effect of $1,275 represents the undiscounted cost of unrequested services valued at $1,500 multiplied by the Beneficiary's discount rate of 85%.

Recommendation

KPMG recommends that the Beneficiary enhance its review process of SPI submissions to ensure that only eligible services requested in FCC Form 471 are included in E-rate Program reimbursement requests.

Beneficiary Response

The school has implemented an update to its Schools and Library program procedure to include a more detailed review of all Service Provider Invoices prior to payment and 10-year document retention requirement.

Supporting Document [Provided to USAC Management]

- Intrepid College Prep: E-rate Standard Operating Procedures - see pg. 15

Finding No.	**SL2018BE021-F03: 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 January 23, 2019, during the course of the audit, although outside 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. The Beneficiary held a public meeting in January 2019.
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	The Beneficiary has updated its file retention and CIPA compliance procedures. **Supporting Document** [Provided to USAC Management] • Intrepid College Prep: E-rate Standard Operating Procedures - see pgs. 9-10
Finding No.	**SL2018BE021-F04: Failure to file a Service Substitution**
Condition	The Beneficiary failed to file a service substitution request for the UPS purchased with E-rate Program funding related to FRN 1799111636. The Cyberpower OR2200LCD UPS/Battery Backup was requested on FCC Form 471 Number 171048823; however, a TrippLite Smart1500 VA was invoiced and a Cyberpower OR1500LCD was received, but not installed, at the Independence Academy location. Upon follow-up inquiry and research, specifications between the Cyberpower OR1500LCD and Cyberpower OR2200LCD differ in output (i.e. 1500VA vs. 2200VA) and would have required the filing of a service substitution given the lower output of the replacement battery backup. The amount invoiced for the substituted UPS was the same amount as requested in the FCC Form 471.
Cause	The Beneficiary did not have controls in place to ensure that service substitution requests are submitted to the SLD for approval when the original eligible equipment and services requested are substituted.
Effect	The monetary effect of this finding is $535 under FRN 1799111636. However, the amount of $535 overlaps with finding SL2018BE021-F01 above. Therefore, the recommended recovery related to SL2018BE021-F04 is $0.

Recommendation KPMG recommends that the Beneficiary enhance the process and procedures around complying with FCC Rules and Regulations that require service substitution requests be filed with the SLD to ensure service substitutions are appropriately documented and approved.

Beneficiary Response The beneficiary has updated its operations and Process policies to include review of all services and components purchased using Schools and Libraries funding to insure eligibility and accuracy of the vendor invoices. The policy will more accurately identify any variances between vendor quotes, delivery invoices or packing slips.

Supporting Document [Provided to USAC Management]

- Intrepid College Prep: E-rate Standard Operating Procedures - see pgs. 15-16

Criteria

Finding	Criteria	Description
#1, 2	Schools and Libraries (E-rate) Program, FCC Form 474 (SPI) User Guide, at 3-4.	"ALL of the following conditions must occur before a service provider prepares and submits the FCC Form 474 to USAC: 1. The service provider receives a Funding Commitment Decision Letter (FCDL) from USAC which approves eligible discounts for services; AND 2. The eligible applicant is already receiving or has received these services; AND 3. The service provider has billed the applicant for its non-discount share of the services; AND 4. The service provider has received its FCC Form 486 Notification Letter; AND 5. The service provider has filed an FCC Form 473, Service Provider Annual Certification Form, for the corresponding funding year . . . For each BEN, your FCC Form 474 should contain information for each FRN for services delivered to that applicant AND for which you have received your FCDL. "
#1	*Third Report and Order and Second Notice of Proposed Rulemaking*[2]	"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. § 54.502 (a) (2016)	"*Supported services*. All supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (d) of this section. The services in this subpart will be supported in addition to all reasonable charges that are incurred by taking such services, such as state and federal taxes. Charges for termination liability, penalty surcharges, and other charges not included in the cost of taking such service shall not be covered by the universal service support mechanisms. The supported services

[2] *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
		fall within the following general categories: 1) *Category one*. Telecommunications services, telecommunications, and Internet access, as defined in §54.5 and described in the Eligible Services List are category one supported services. 2) *Category two*. Internal connections, basic maintenance and managed internal broadband services as defined in §54.500 and described in the Eligible Services List are category two supported services.”
#3	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 for a period of 10 years after purchase.”
#3	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.”
#4	47 C.F.R. § 54.504 (d) (2016)	“*Service substitution*. (1) The Administrator shall grant a request by an applicant to substitute a service or product for one identified on its FCC Form 471 where: (i) The service or product has the same functionality; (ii) The substitution does not violate any contract provisions or state or local procurement laws; (iii) The substitution does not result in an increase in the percentage of ineligible services or functions; and (iv) The applicant certifies that the requested change is within the scope of the controlling FCC Form 470, including any associated Requests for Proposal, for the original services. (2) In the event that a service substitution results in a change in the pre-discount price for the supported service, support shall be based on the lower of either the pre-discount price of the service for which support was originally requested or the pre-discount

Finding	Criteria	Description
		price of the new, substituted service. (3) For purposes of this rule, the two categories of eligible services are not deemed to have the same functionality as one another.”

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified four findings, Beneficiary Over-Invoiced SLP for Services and Equipment Not Received, Beneficiary Over-Invoiced SLP for Services Not Requested, Failure to Comply with CIPA Requirements – Lack of Public Hearing or Meeting & Lack of Public Notice, and Failure to file a Service Substitution. 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	Overlapping Recovery	Recommended Recovery
Internal Connections	$5,361	$535	$4,826
Total Impact	**$5,361**	**$535**	**$4,826**

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, enhance its review process of SPI forms to ensure that only eligible services requested in FCC Form 471 are included in E-rate Program reimbursement requests, implement controls and procedures to ensure compliance with CIPA requirements and to ensure adequate records related to providing public notice and holding a public meeting to discuss the Internet Safety Policy are retained, and implement a service substitution approval process to ensure service substitutions are appropriately documented and approved.