

Performance Audit Conducted on Behalf of the

Federal Communications Commission

Office of the Inspector General



PERFORMANCE AUDIT FOR THE UNIVERSAL SERVICE E-RATE SCHOOLS AND LIBRARIES PROGRAM DISBURSEMENTS RELATED TO FUNDING YEAR 2015

Cullman County School District

Beneficiary ID: 127923

Prepared for: **Federal Communications Commission**
Office of the Inspector General
OIG Report No. 19-AUD-10-06

As of Date: June 23, 2021



8350 Broad Street #900
McLean, VA 22102

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EXECUTIVE SUMMARY

June 23, 2021

Mr. David Hunt
Inspector General
Federal Communications Commission
Office of Inspector General
445 12th Street SW
Washington, DC 20554

Dear Mr. Hunt:

This report presents the results of our work conducted to address the performance audit objectives relative to Cullman County School District, Billed Entity Number (“BEN”) 127923, (“Cullman” or “Beneficiary”) for disbursements of \$341,502, made from the Universal Service Fund on behalf of the E-rate program related to the twelve-month period ended June 30, 2016, (hereinafter “Funding Year 2015”). Our work was performed during the period from July 30, 2019 to June 23, 2021, and our results are as of June 23, 2021.

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 objectives of the audit were to (1) determine if the E-Rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders¹ issued under Section 254 of the Communications Act of 1934, as amended; and (2) determine and report on potential instances of fraud, waste and/or abuse. We evaluated the Beneficiary’s compliance with the applicable FCC Rules² that resulted in disbursements of \$341,502 from the E-rate program related to Funding Year 2015. Compliance with the Rules is the responsibility of the

¹ The applicable orders include: First Report and Order (FCC 97-157), Second Report and Order (FCC 03-101), Third Report and order (FCC 03-323), Fifth Report and Order (FCC 04-190), Sixth Report and Order (FCC 10-175), Children’s Internet Protection Act Report and Order (FCC 11-125), Queen of Peace Order (DA 11-1991), Modernization Order (FCC 14-99) and Second Modernization Order (FCC 14-189).

² The requirements, regulations and orders governing the federal Universal Service Schools and Libraries program (“E-rate” program) are 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”).

Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As a result of the procedures performed, KPMG identified two findings and one other matter, as described in the Performance Audit Highlights section. Based on these results, we estimate that Funding Year 2015 E-rate program disbursements made to the Beneficiary were \$54,052 higher than they would have been had the disbursements 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.

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

Sincerely,

KPMG LLP

PERFORMANCE AUDIT HIGHLIGHTS

The Federal Communications Commission (“FCC”) Office of Inspector General (“OIG”) conducts independent and objective audits, investigations, and other reviews to ensure the Schools and Libraries program (commonly known as the “E-rate” program) is in compliance with the financial and administrative terms and conditions of the regulations set forth in 47 C.F.R. Part 54 of the FCC Rules. The FCC OIG contracted with KPMG LLP (“KPMG”) to conduct this independent performance audit.

What Was Audited?

On behalf of the OIG, we conducted a performance audit of Cullman County School District (“Beneficiary”), an E-rate program beneficiary for Funding Year 2015 (July 1, 2015 through June 30, 2016). Our objectives were to (1) determine if the E-Rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders issued under Section 254 of the Communications Act of 1934, as amended; and (2) determine and report on potential instances of fraud, waste and/or abuse.

The scope of our performance audit included, but was not limited to, the application process, competitive bidding process, calculation of the discount percentage, invoicing process, effective use of services and equipment, reimbursement process and record keeping.

What Was Found?

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified two findings and one other matter.

1. The Beneficiary did not maintain documentation to demonstrate category one service providers were selected in compliance with E-rate program competitive bidding regulations.
2. The Beneficiary received reimbursement under 19 telecommunication FRNs for ineligible features as defined by the Funding Year 2015 Eligible Services List for the E-rate program.

Other Matter:

The Beneficiary failed to file an FCC Form 500 to cancel committed funds that were not used.

Overall, we determined that disbursements in the amount of \$54,052 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures.

Detailed audit results are described in the Findings and Recommendations section below.

What Is Recommended?

KPMG recommends that:

1. The Beneficiary develop a process and related controls to ensure it retains all documents related to the application for, receipt, and delivery of discounted telecommunications

services. Such documents should be retained 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.

2. The Beneficiary develop a process and internal controls to review the appropriate funding year Eligible Services List and ensure E-rate program reimbursement requests include only costs associated with eligible services. The process should also ensure reimbursement requests are adequately reviewed to identify and remove all costs associated with ineligible features.
3. USAC seek recovery of Universal Service Funds in the amount of \$54,052 from the Beneficiary.

Additionally, regarding the other matter noted, the Beneficiary should create a process with related controls to ensure an FCC Form 500 is submitted to USAC identifying committed funds the school district no longer intends to use.

BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES

Background

The FCC was established by the Communications Act of 1934 as an independent U.S. government agency and is directly responsible to Congress. The FCC regulates interstate (between states) and international communications by radio, television, wire, satellite and cable in all 50 states, the District of Columbia and U.S. territories.

The Communications Act of 1934 mandated that all people in the United States shall have access to universal service, defined as rapid, efficient, nationwide communications with adequate facilities at reasonable charges. Subsequently, the Telecommunications Act of 1996 expanded the traditional definition of universal service for affordable, nationwide telephone service to include rural health care providers and eligible schools and libraries. Today, the FCC provides universal service support, at a cost of almost \$10 billion annually, through four programs – Schools and Libraries, High Cost, Lifeline, and Rural Health Care.

Program Overview

The Schools and Libraries universal service support program, commonly known as the “E-rate” program, provides funding for schools and libraries to obtain affordable telecommunications equipment and/or services and internet access/broadband. Annual funding for the E-rate program is based on demand. During funding year 2015 the FCC established an annual cap of \$3.9 billion. Funding for a school or library may be requested under two categories of eligible services, category one services (telecommunications, telecommunications services and Internet access), and category two services (internal connections, basic maintenance of internal connections, and managed internal broadband services). The dollar amount of E-rate support a school or library receives is based on poverty program eligibility criteria. The amount is calculated based on the percentage of students within the school district eligible for the National School Lunch Program and whether the school or library is located in an urban or rural area.

The school or library’s E-rate discount ranges from 20 to 90 percent of the cost of eligible services.

The E-rate program is administered by the Universal Service Administrative Company (“USAC”) under the direction of the FCC. Specifically, USAC is responsible for ensuring applicant compliance with program rules, processing program applications, confirming program eligibility and providing reimbursements to program participants. The FCC OIG contracted with KPMG to conduct a performance audit of the Cullman County School District’s E-rate program compliance with applicable requirements of 47 C.F.R. Part 54 of the FCC’s Rules, as well as FCC Orders governing the E-rate program during Funding Year 2015.

Beneficiary Overview

Cullman County School District (“Beneficiary”, BEN# 127923), is a school district located in Cullman County, AL that serves over 9,600 students.

The following table illustrates the amount committed³ and disbursed by USAC to the E-rate program Beneficiary for Funding Year 2015 by service type:

Source: USAC

Service Type	Amount Committed	Amount Disbursed
Internal Connections	\$139,386	\$139,314
Telecommunications Services	\$144,643	\$140,381
Voice Services	\$69,494	\$61,807
Total	\$353,524	\$341,502

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2015.

The committed total of \$353,524 represents three FCC Form 471⁴ applications with thirty-five Funding Request Numbers (“FRN”)⁵. We audited 33 FRNs with commitments totaling \$349,240 and disbursements of \$341,502. FRN 2798884 and 2799048 had no related disbursements and were not in the scope of this audit.

Objectives

The objectives of this audit were to (1) determine if the E-rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders issued under Section 254 of the Communications Act of 1934, as amended (related orders can be found on the USAC website at <http://www.usac.org/about/tools/fcc>); and (2) determine and report on potential instances of fraud, waste and/or abuse. We audited disbursements of \$341,502 made to the Beneficiary from the Universal Service Fund (“USF”) for Funding Year 2015.

³ Amount committed represents USAC’s funding decision on an applicant’s E-rate funding request.

⁴ FCC Form 471: The *Services Ordered and Certification Form* is an FCC form used to report services ordered and discounts requested for those services.

⁵ Funding Request Number: A unique number that USAC assigns to each funding request in an FCC Form 471.

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, the Beneficiary's compliance with eligibility requirements for the committed and disbursed amounts related to Funding Year 2015. Specifically, KPMG reviewed the following areas for compliance with E-rate laws, rules and regulations:

1. Application Process;
2. Competitive Bidding Process;
3. Calculation of the Discount Percentage;
4. Invoicing Process;
5. Effective Use of Services and Equipment;
6. Reimbursement Process; and
7. Record Keeping

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.

Procedures

This performance audit includes procedures related to the E-rate program for which funds were committed and disbursed to the Beneficiary for Funding Year 2015. Performance audit procedures completed include the following (refer to Appendix D for additional details):

1. Application Process:

- a) Gained an understanding of the Beneficiary's E-rate program application process and use of funds.
- b) Reviewed evidence to support the Beneficiary's compliance with Children's Internet Protection Act ("CIPA")⁶ requirements.

⁶ Children's Internet Protection Act: A law that mandates certain internet safety policy and filtering requirements for recipients of E-rate program discounts.

2. Competitive Bidding Process:

- a) Examined documentation to determine if all bids received were properly evaluated and that the price of eligible services was the primary factor considered when selecting a Service Provider.
- b) Examined evidence to confirm the Beneficiary waited the required 28 days from the date the FCC Form 470⁷ was posted on USAC's website before signing contracts with the selected service providers.
- c) Reviewed service provider contracts to determine if they were properly executed.
- d) Interviewed school principals to determine how service providers were selected.

3. Discount Calculation Process:

- a) Recalculated the discount percentage to verify accuracy using source data provided by the Beneficiary.

4. Invoicing Process:

- a) Examined invoices to determine if equipment and services per service provider bills were consistent with the terms and specifications of the contracting documents.
- b) Examined documentation to determine if the Beneficiary paid its non-discounted share in a timely manner.

5. Effective Use of Services and Equipment:

- a) Selected individual schools to verify the effective use of services and equipment using statistical sampling software.
- b) For a sample of schools, performed a physical inventory to evaluate the location and appropriate utilization of equipment and services in accordance with 47 CFR §54.516(d).
- c) For a sample of schools, observed and determined if the E-rate funded equipment and services were operational and being effectively used for their intended purposes.

6. Reimbursement Process:

- a) Examined invoices submitted for reimbursement to verify eligibility of claimed costs.
- b) Verified that services and equipment claimed on invoices and corresponding service provider bills complied with the requirements of the E-rate program Eligible Services List⁸.

7. Record Keeping:

- a) Determined if the Beneficiary's record retention policies and procedures are consistent with the E-rate program rules.

⁷ FCC Form 470: The *Description of Services Requested and Certification Form* is an FCC form schools and libraries use to request services and establish eligibility.

⁸ See glossary in Appendix C for additional information. The Funding Year 2015 Eligible Services List can be found at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-14-1556A1.pdf

RESULTS

KPMG’s performance audit results include findings and recommendations, with respect to the Beneficiary’s compliance with FCC requirements. The audit results also include an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2015 commitments and disbursements made from the USF.

Findings and Recommendations

KPMG’s performance audit procedures identified two findings and one other matter.

Finding No. 1	<u>Beneficiary Did Not Maintain Documentation of its Competitive Bidding Process</u>																												
Condition	<p>The Beneficiary did not maintain documentation to demonstrate category one service providers were selected in compliance with E-rate program competitive bidding regulations. For 28 of the 29 voice services Funding Request Numbers (FRN), the Beneficiary did not document the evaluation of proposals it received from voice service providers during E-rate Funding Year 2015.</p> <p>We were unable to determine whether service providers with the most cost-effective offerings were selected. During Funding Year 2015, each school was permitted by the Technology Director at the central office to independently select between two service providers for local and long-distance voice services. The Beneficiary did not retain the service provider proposals, nor did the Beneficiary document the evaluation of the proposals. Documentation retained was limited to memorandums signed by school principals indicating which service provider was selected.</p> <p>Each memorandum contained an attestation that the principal was aware of E-rate program rules and that the most cost-efficient provider was selected. Documentation did not demonstrate what relevant factors, with cost as the primary factor, were considered to select the service provider.</p> <p>Impacted FRNs include:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 25%;">▪ 2798508</td> <td style="width: 25%;">▪ 2798818</td> <td style="width: 25%;">▪ 2798938</td> <td style="width: 25%;">▪ 2799063</td> </tr> <tr> <td>▪ 2798564</td> <td>▪ 2798834</td> <td>▪ 2798951</td> <td>▪ 2799080</td> </tr> <tr> <td>▪ 2798587</td> <td>▪ 2798853</td> <td>▪ 2798960</td> <td>▪ 2799093</td> </tr> <tr> <td>▪ 2798608</td> <td>▪ 2798867</td> <td>▪ 2798979</td> <td>▪ 2799105</td> </tr> <tr> <td>▪ 2798633</td> <td>▪ 2798902</td> <td>▪ 2798996</td> <td>▪ 2799116</td> </tr> <tr> <td>▪ 2798771</td> <td>▪ 2798911</td> <td>▪ 2799016</td> <td>▪ 2799129</td> </tr> <tr> <td>▪ 2798808</td> <td>▪ 2798923</td> <td>▪ 2799031</td> <td>▪ 2799136</td> </tr> </table> <p>We interviewed principals who were with the school district during Funding Year 2015. Based on the interviews, the majority of the principals were familiar with the E-rate Program and its purpose, but not with specific</p>	▪ 2798508	▪ 2798818	▪ 2798938	▪ 2799063	▪ 2798564	▪ 2798834	▪ 2798951	▪ 2799080	▪ 2798587	▪ 2798853	▪ 2798960	▪ 2799093	▪ 2798608	▪ 2798867	▪ 2798979	▪ 2799105	▪ 2798633	▪ 2798902	▪ 2798996	▪ 2799116	▪ 2798771	▪ 2798911	▪ 2799016	▪ 2799129	▪ 2798808	▪ 2798923	▪ 2799031	▪ 2799136
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	<p>program rules and regulations. Principals interviewed indicated they had no personal relationships with individuals from any of the proposing service providers. The majority of principals continued with incumbent service providers.</p>
<p>Criteria</p>	<p>Per 47 C.F.R. Section 54.503(a) (2014), “[a]ll entities participating in the schools and libraries universal service support program must conduct a fair and open competitive bidding process.”</p> <p>Per 47 C.F.R. Section 54.511(a) (2014), “[i]n selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.”</p> <p>Under 47 C.F.R. Section 54.504(a)(1)(ix) (2014) applicants are required to certify “[a]ll bids submitted to a school, library, or consortium seeking eligible services were carefully considered and the most cost-effective bid was selected in accordance with §54.503 of this subpart, with price being the primary factor considered, and it is the most cost-effective means of meeting educational needs and technology goals.”</p> <p>Per 47 C.F.R. Section 54.516(a)(1) (2014), “Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other 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.”</p>
<p>Cause</p>	<p>School district officials did not have a policy in place to retain all documents related to the application for, receipt, and delivery of discounted telecommunications services. The beneficiary did not retain such 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.</p>

Effect	<p>The monetary effect for this finding is an overpayment to the Beneficiary of \$52,684, which represents the total disbursements under the 28 telecommunication FRNs in question. The table below lists the impacted FRN and the corresponding amount.</p> <table border="1" data-bbox="487 388 1437 997"> <thead> <tr> <th>FRN</th> <th>Disbursement Amount</th> <th>FRN</th> <th>Disbursement Amount</th> </tr> </thead> <tbody> <tr><td>2798508</td><td>\$662</td><td>2798938</td><td>\$1,274</td></tr> <tr><td>2798564</td><td>\$1,238</td><td>2798951</td><td>\$2,664</td></tr> <tr><td>2798587</td><td>\$2,239</td><td>2798960</td><td>\$7,042</td></tr> <tr><td>2798608</td><td>\$1,786</td><td>2798979</td><td>\$1,091</td></tr> <tr><td>2798633</td><td>\$1,670</td><td>2798996</td><td>\$1,073</td></tr> <tr><td>2798771</td><td>\$1,611</td><td>2799016</td><td>\$1,361</td></tr> <tr><td>2798808</td><td>\$916</td><td>2799031</td><td>\$2,153</td></tr> <tr><td>2798818</td><td>\$1,512</td><td>2799063</td><td>\$1,224</td></tr> <tr><td>2798834</td><td>\$1,014</td><td>2799080</td><td>\$1,994</td></tr> <tr><td>2798853</td><td>\$2,434</td><td>2799093</td><td>\$1,800</td></tr> <tr><td>2798867</td><td>\$3,528</td><td>2799105</td><td>\$1,656</td></tr> <tr><td>2798902</td><td>\$2,398</td><td>2799116</td><td>\$1,833</td></tr> <tr><td>2798911</td><td>\$3,276</td><td>2799129</td><td>\$867</td></tr> <tr><td>2798923</td><td>\$1,040</td><td>2799136</td><td>\$1,328</td></tr> <tr> <td colspan="2"></td> <td>Total Impact</td> <td>\$52,684</td> </tr> </tbody> </table>	FRN	Disbursement Amount	FRN	Disbursement Amount	2798508	\$662	2798938	\$1,274	2798564	\$1,238	2798951	\$2,664	2798587	\$2,239	2798960	\$7,042	2798608	\$1,786	2798979	\$1,091	2798633	\$1,670	2798996	\$1,073	2798771	\$1,611	2799016	\$1,361	2798808	\$916	2799031	\$2,153	2798818	\$1,512	2799063	\$1,224	2798834	\$1,014	2799080	\$1,994	2798853	\$2,434	2799093	\$1,800	2798867	\$3,528	2799105	\$1,656	2798902	\$2,398	2799116	\$1,833	2798911	\$3,276	2799129	\$867	2798923	\$1,040	2799136	\$1,328			Total Impact	\$52,684
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Recommendation	<ol style="list-style-type: none"> 1. KPMG recommends the Beneficiary develop a process and related controls to ensure it retains all documents related to the application for, receipt, and delivery of discounted telecommunications services. Such documents should be retained 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. 2. KPMG recommends that USAC seek recovery of Universal Service Funds in the amount of \$52,684. 																																																																
Beneficiary Response	Cullman County School District agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.																																																																
USAC’s Management Response	USAC management concurs with the finding and recommendations. USAC will seek recovery in the amount of \$52,684. The full response is included in Appendix B of the report.																																																																

Finding No. 2	<u>The Beneficiary Requested and Received Reimbursement for Ineligible Voice Services</u>
Condition	<p>The Beneficiary received reimbursement under 19 of 29 voice services FRNs for ineligible services as defined by the Funding Year 2015 Eligible Services List for the E-rate program. We reviewed Funding Year 2015 local and long-distance voice service provider bills and noted the Beneficiary requested and received reimbursement for the following ineligible features: custom calling services, Directory Assistance charges (caller ID), inside wire maintenance, voicemail, data, and additional lines.</p> <p>Impacted FRNs include:</p> <ul style="list-style-type: none"> ▪ 2798508 ▪ 2798834 ▪ 2798979 ▪ 2799105 ▪ 2798587 ▪ 2798902 ▪ 2798996 ▪ 2799116 ▪ 2798608 ▪ 2798911 ▪ 2799031 ▪ 2799136 ▪ 2798771 ▪ 2798923 ▪ 2799080 ▪ 2799245 ▪ 2798808 ▪ 2798938 ▪ 2799093
Criteria	<p>Per 47 C.F.R. Section 54.502(a) (2014), “Supported services. Supported services are listed in the Eligible Services List as updated annually in accordance with paragraph (b) of this section.” The conditions for eligibility are described in the Eligible Services List for each Funding Year, which are available on the USAC website.</p>
Cause	<p>The Beneficiary did not have an adequate review process to identify and remove all costs associated with ineligible services from requests for E-rate program reimbursements. Per the Beneficiary, the features identified had recently become ineligible during Funding Year 2015. The school district did not realize at the time they needed to be removed from requests for reimbursement from the E-rate program.</p>

<p>Effect</p>	<p>The monetary effect for this finding is \$7,106 (calculated as the difference between the eligible discounted amount and the disbursed amount for 19 Voice FRNs). We noted that \$5,738 of the monetary impact noted under Finding No. 2 represent the same funds questioned under Finding No. 1. As such, the net monetary effect for this finding is an overpayment to the Beneficiary of \$1,368. The table below lists the impacted FRNs. The FRNs with overlapping recovery are denoted in the table with an “*”.</p> <table border="1" data-bbox="505 478 1446 1388"> <thead> <tr> <th>FRN</th> <th>Eligible Undiscounted Amount</th> <th>Eligible Discounted Amount</th> <th>Disbursement Amount</th> <th>Monetary Impact</th> </tr> <tr> <td></td> <td>(a)</td> <td>(b) = (a) x 60%</td> <td>(c)</td> <td>(d) = (b) - (c)</td> </tr> </thead> <tbody> <tr><td>2798508*</td><td>\$ 874</td><td>\$ 525</td><td>\$ 662</td><td>\$ (138)</td></tr> <tr><td>2798587*</td><td>\$ 1,740</td><td>\$ 1,044</td><td>\$ 2,239</td><td>\$ (1,195)</td></tr> <tr><td>2798608*</td><td>\$ 2,734</td><td>\$ 1,641</td><td>\$ 1,786</td><td>\$ (145)</td></tr> <tr><td>2798771*</td><td>\$ 2,489</td><td>\$ 1,493</td><td>\$ 1,611</td><td>\$ (117)</td></tr> <tr><td>2798808*</td><td>\$ 1,510</td><td>\$ 906</td><td>\$ 916</td><td>\$ (10)</td></tr> <tr><td>2798834*</td><td>\$ 1,273</td><td>\$ 764</td><td>\$ 1,014</td><td>\$ (250)</td></tr> <tr><td>2798902*</td><td>\$ 3,007</td><td>\$ 1,804</td><td>\$ 2,398</td><td>\$ (593)</td></tr> <tr><td>2798911*</td><td>\$ 4,044</td><td>\$ 2,427</td><td>\$ 3,276</td><td>\$ (849)</td></tr> <tr><td>2798923*</td><td>\$ 1,450</td><td>\$ 870</td><td>\$ 1,040</td><td>\$ (170)</td></tr> <tr><td>2798938*</td><td>\$ 1,393</td><td>\$ 836</td><td>\$ 1,274</td><td>\$ (438)</td></tr> <tr><td>2798979*</td><td>\$ 1,236</td><td>\$ 742</td><td>\$ 1,091</td><td>\$ (350)</td></tr> <tr><td>2798996*</td><td>\$ 1,258</td><td>\$ 755</td><td>\$ 1,073</td><td>\$ (318)</td></tr> <tr><td>2799031*</td><td>\$ 2,621</td><td>\$ 1,573</td><td>\$ 2,153</td><td>\$ (580)</td></tr> <tr><td>2799080*</td><td>\$ 3,163</td><td>\$ 1,898</td><td>\$ 1,994</td><td>\$ (96)</td></tr> <tr><td>2799093*</td><td>\$ 2,813</td><td>\$ 1,688</td><td>\$ 1,800</td><td>\$ (112)</td></tr> <tr><td>2799105*</td><td>\$ 2,630</td><td>\$ 1,578</td><td>\$ 1,656</td><td>\$ (78)</td></tr> <tr><td>2799116*</td><td>\$ 2,700</td><td>\$ 1,620</td><td>\$ 1,833</td><td>\$ (213)</td></tr> <tr><td>2799136*</td><td>\$ 2,070</td><td>\$ 1,242</td><td>\$ 1,328</td><td>\$ (86)</td></tr> <tr><td>2799245</td><td>\$ 12,924</td><td>\$ 7,755</td><td>\$ 9,122</td><td>\$ (1,368)</td></tr> <tr> <td>Total</td> <td></td> <td></td> <td></td> <td><u>\$ (7,106)</u></td> </tr> </tbody> </table>	FRN	Eligible Undiscounted Amount	Eligible Discounted Amount	Disbursement Amount	Monetary Impact		(a)	(b) = (a) x 60%	(c)	(d) = (b) - (c)	2798508*	\$ 874	\$ 525	\$ 662	\$ (138)	2798587*	\$ 1,740	\$ 1,044	\$ 2,239	\$ (1,195)	2798608*	\$ 2,734	\$ 1,641	\$ 1,786	\$ (145)	2798771*	\$ 2,489	\$ 1,493	\$ 1,611	\$ (117)	2798808*	\$ 1,510	\$ 906	\$ 916	\$ (10)	2798834*	\$ 1,273	\$ 764	\$ 1,014	\$ (250)	2798902*	\$ 3,007	\$ 1,804	\$ 2,398	\$ (593)	2798911*	\$ 4,044	\$ 2,427	\$ 3,276	\$ (849)	2798923*	\$ 1,450	\$ 870	\$ 1,040	\$ (170)	2798938*	\$ 1,393	\$ 836	\$ 1,274	\$ (438)	2798979*	\$ 1,236	\$ 742	\$ 1,091	\$ (350)	2798996*	\$ 1,258	\$ 755	\$ 1,073	\$ (318)	2799031*	\$ 2,621	\$ 1,573	\$ 2,153	\$ (580)	2799080*	\$ 3,163	\$ 1,898	\$ 1,994	\$ (96)	2799093*	\$ 2,813	\$ 1,688	\$ 1,800	\$ (112)	2799105*	\$ 2,630	\$ 1,578	\$ 1,656	\$ (78)	2799116*	\$ 2,700	\$ 1,620	\$ 1,833	\$ (213)	2799136*	\$ 2,070	\$ 1,242	\$ 1,328	\$ (86)	2799245	\$ 12,924	\$ 7,755	\$ 9,122	\$ (1,368)	Total				<u>\$ (7,106)</u>
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<p>Recommendation</p>	<ol style="list-style-type: none"> 1. KPMG recommends the Beneficiary develop a process and related controls to review the appropriate funding year Eligible Services List and ensure E-rate program reimbursement requests include only costs associated with eligible services. The process should also ensure reimbursement requests are adequately reviewed to identify and remove all costs associated with ineligible features. 2. KPMG recommends that USAC seek recovery of Universal Service Funds in the amount of \$1,368. 																																																																																																														

Beneficiary Response	Cullman County School District agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.
USAC’s Management Response	USAC management concurs with the finding and recommendations. USAC will seek recovery in the amount of \$1,368. The full response is included in Appendix B of the report.

Other Matter

KPMG’s performance audit procedures also identified one other reportable matter.

Other Matter	<u>Beneficiary Failed to File FCC Form 500 to Cancel Committed Funds That Were Not Used</u>
<p>During Funding Year 2015, the Beneficiary became aware that it no longer needed funds committed under voice service FRNs 2799048, 2798884, and 2798923. However, the Beneficiary did not file an FCC Form 500 to cancel amounts committed under these FRNs.</p> <p>The following was noted during the performance audit:</p> <ul style="list-style-type: none"> ▪ Hanceville High School (FRN 2799048) did not select the service provider that was indicated on FCC Form 471 No. 1025322. As such, the school district did not request reimbursement under this FRN. ▪ Garden City Elementary School (FRN 2798884) was closed in May 2015 and did not receive services requested under the FRN. ▪ Cullman Area Vocational School (FRN 2798923) changed service providers during the Funding Year without consulting the Director of Technology (i.e. E-rate Coordinator). The school district did not request reimbursement under this FRN following the change in service providers. 	
Beneficiary Response	<p>Cullman County School District agreed with the other matter. The Beneficiary’s full response is included in Appendix A of the report.</p> <p><i>Note: As a result of comments received from USAC during the draft report stage of the performance audit process, this issue was changed from a “finding” to an “other matter” in this report. This change occurred after the Beneficiary provided their response. As such, the response within Appendix A references “Finding #3” instead of an “other matter”.</i></p>
USAC’s Management Response	USAC management concurs with the finding and recommendations. The full response is included in Appendix B of the report.

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified two findings and other matter.

1. The Beneficiary did not maintain documentation to demonstrate category one service providers were selected in compliance with E-rate program competitive bidding regulations.
2. The Beneficiary received reimbursement under 19 of 29 telecommunication FRNs for ineligible services as defined by the Funding Year 2015 Eligible Services List for the E-rate program.

Other Matter:

The Beneficiary failed to file an FCC Form 500 to cancel committed funds that were not used.

Overall, we determined that disbursements in the amount of \$54,052 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures.

Detailed audit results are described in the Findings and Recommendations section above.

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

Service Type	Monetary Effect of Audit Results	Recommended Recovery
Voice Services	\$ 54,052	\$ 54,052
Total Impact	\$ 54,052	\$ 54,052

KPMG recommends that:

1. The Beneficiary develop a process and related controls to ensure it retains all documents related to the application for, receipt, and delivery of discounted telecommunications services. Such documents should be retained 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.
2. The Beneficiary develop a process to review the appropriate funding year Eligible Services List and ensure E-rate program reimbursement requests include only costs associated with eligible services. The process should also ensure reimbursement requests are adequately reviewed to identify and remove all costs associated with ineligible features.
3. USAC seek recovery of Universal Service Funds in the amount of \$54,052 from the Beneficiary.

Additionally, regarding the other matter noted, the Beneficiary should create a process with related controls to ensure an FCC Form 500 is submitted to USAC identifying committed funds the school district no longer intends to use.

APPENDICES

Appendix A: Beneficiary Response

Dr. Shane Barnette
Superintendent



Phone: (256) 734-2933
Fax: (256) 736-2402

March 1, 2021

Mr. Jeremy Claytore
KPMG LLP
401 Commerce Street, Suite 1000
Nashville, TN 37219

Dear Mr. Claytore:

The following is the beneficiary response to the performance audit report 19-AUD-10-06.

Finding No. 1 – Beneficiary Did Not Maintain Documentation of its Competitive Bidding Process

Finding No. 1, I concur with the finding.

Recommendation 1: The Cullman County School District will ensure all personnel involved in the E-rate program receive the proper training so they are knowledgeable of program rules and regulations. All new personnel given e-rate responsibilities will be sent to state provided e-rate training.

Recommendation 2: It is respectfully requested that the recovery amount of \$52,684 be reduced by \$20,392 to a recovery amount of \$32,292, (see table below). The Technology Director did abide by program rules related to the Filing of the Form 470 and was the point of contact for the district for Service Provider Responses. There were no proposals received for services specified on the Form 470 from any Service Providers including the two currently used by the schools. In review of the invoices for the two Service Providers used by the schools it is now evident that only one school was provided the most cost-effective offering. If all program rules were followed by schools and Service Providers then all schools would have selected that Service Provider and that Service Provider would have provided the most cost-effective offering to all schools, not just one school.

FRN	Disbursement Amount	Most Cost Effective	Funds To Be Recovered
2798508	\$662	\$381	\$281
2798564	\$1,238	\$572	\$666
2798587	\$2,239	\$763	\$1,476
2798608	\$1,786	\$763	\$1,023

402 Arnold Street, N.E.
Cullman Alabama 35055

Phone: 256.734.2933

2798633	\$1,670	\$763	\$907
2798771	\$1,611	\$572	\$1,039
2798808	\$916	\$525	\$391
2798818	\$1,512	\$954	\$558
2798834	\$1,014	\$381	\$633
2798853	\$2,434	\$1,526	\$908
2798867	\$3,528	\$1,144	\$2,384
2798902	\$2,398	\$763	\$1,635
2798911	\$3,276	\$954	\$2,322
2798923	\$1,040	\$318	\$722
2798938	\$1,274	\$525	\$749
2798951	\$2,664	\$572	\$2,092
2798960	\$7,042	\$2,289	\$4,753
2798979	\$1,091	\$572	\$519
2798996	\$1,073	\$572	\$501
2799016	\$1,361	\$763	\$598
2799031	\$2,153	\$572	\$1,581
2799063	\$1,224	\$381	\$843
2799080	\$1,994	\$954	\$1,040
2799093	\$1,800	\$763	\$1,037
2799105	\$1,656	\$572	\$1,084
2799116	\$1,833	\$525	\$1,308
2799129	\$867	\$381	\$486
2799136	\$1,328	\$572	\$756
	\$52,684	\$20,392	\$32,292

Finding No. 2 – The Beneficiary Requested and Received Reimbursement for Ineligible Voice Services

Finding No. 2, I concur with the finding.

Recommendation 1: Cullman County Schools has develop a process as recommended.

Recommendation 2: I concur with recommendation.

Dr. Shane Barnette
Superintendent



Phone: (256) 734-2933
Fax: (256) 736-2402

Finding No. 3 –Beneficiary Failed to File FCC Form 500 to Cancel Committed Funds

Finding No. 3, I concur with the finding.

Recommendation: I understood that filing a Form 500 was not a formal requirement, but a highly recommended action. I now understand this is a required action and will abide by the Recommendation above.

Respectfully submitted;

Bruce Ellard
Technology Director
Cullman County Schools

Appendix B: Management's Response



Via Electronic Mail

May 12, 2021

Mr. Robert McGriff
Assistant Inspector General – Audits
Office of Inspector General
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Comments of the Universal Service Administrative Company to the Final Draft Funding Year 2015 Performance Audit of Cullman County School District (Report No. 19-AUD-10-06)

Dear Mr. McGriff:

The Universal Service Administrative Company (USAC) is providing its response to the above-referenced draft report regarding a performance audit of Cullman County School District (Beneficiary or Cullman), a Universal Service Fund (USF) Schools and Libraries (also known as "E-Rate") program Beneficiary. The Federal Communications Commission Office of Inspector General (OIG) conducted the performance audit to determine whether the Beneficiary complied with the Commission's rules and orders for the E-Rate program and to review whether the Beneficiary's internal controls were adequate and effective. There were two findings and one other matter in the draft audit report. USAC's management responses are below.

Finding One (Cullman Did Not Maintain Documentation of its Competitive Bidding Process)

Finding Summary: Cullman did not maintain documentation demonstrating it selected service providers in accordance with E-Rate program competitive bidding regulations. Cullman was unable to provide service provider proposals or bid evaluation documents for Category One proposals to demonstrate it chose the most cost-effective proposal using price of the eligible products and services as the most heavily weighted bid evaluation factor.

Recommendation:

1. KPMG recommends the Beneficiary develop a process and related controls to ensure it retains all documents related to the application for, receipt, and delivery of discounted telecommunications services. Such documents should be retained 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.

2. KPMG recommends that USAC seek recovery of Universal Service Funds in the amount of \$52,684.

USAC's Management Response: USAC management concurs with the finding and recommendation. The Beneficiary should strengthen its internal controls within its E-Rate competitive bidding process and document retention protocol. E-Rate entities must conduct a fair and open competitive bidding process and retain documentation related to the application for, receipt, and delivery of discounted services for at least 10 years from the last date of service delivery.

USAC will seek recovery in the amount of \$52,684. USAC will also issue an Audit Compliance Letter requesting Cullman provide policies and procedures it has implemented to address the issues identified.

Finding Two (Cullman Invoiced the E-Rate program for Ineligible Products and Services within the Voice Services Category)

Finding Summary: Cullman requested and received reimbursement for the following ineligible products and services within the Voice Services category: Custom Calling Services, Directory Assistance Charges (Caller ID), Inside Wire Maintenance, Voicemail, Data, and Additional Lines.

Recommendation:

1. KPMG recommends the Beneficiary develop a process and related controls to review the appropriate funding year Eligible Services List and ensure E-rate program reimbursement requests include only costs associated with eligible services. The process should also ensure reimbursement requests are adequately reviewed to identify and remove all costs associated with ineligible features.
2. KPMG recommends that USAC seek recovery of Universal Service Funds in the amount of \$1,368.

USAC's Management Response: USAC management concurs with the finding and recommendation. The products and services Cullman was reimbursed for were ruled ineligible for Fund Year 2015 by the Commission when it released the Fund Year 2015 Eligible Services List (ESL) on October 28, 2014 under FCC DA 14-1556. The ESL is posted to USAC's website prior to the opening of each Fund Year and it is incumbent upon applicants to review it prior to filing FCC Form 471 to ensure they request products and services that are eligible for reimbursement under program rules.

USAC will seek recovery in the amount of \$1,368. USAC will also issue an Audit Compliance Letter requesting Cullman provide policies and procedures it has implemented to address the issue identified.

Other Matter (Cullman Failed to File FCC Form 500 to Cancel Committed Funds It Did Not Use)

Other Matter Summary: During Funding Year 2015, Cullman became aware that it no longer needed Voice Services funds committed for three of its schools. However, Cullman did not file an FCC Form 500 notifying USAC to cancel these funds.

USAC's Management Response: USAC management concurs with the Other Matter and will remind E-rate applicants to submit the FCC Form 500 when there are changes to the committed funding requests,

for example, where applicants no longer need the requested and approved services, during training events and will include this information in training materials.

This concludes USAC Management's response to the two above-referenced findings and one other matter for the Cullman County School District draft performance audit report. Please let us know if you have any questions or need further information.

Sincerely,

//s//

Craig Davis
Vice President of E-Rate Program

Appendix C: Glossary of Terms

Term	Definition
APPLICANT	The entity applying for universal service support. In the Schools and Libraries program the entity is a school, library, consortium, or other eligible entity that files program forms.
BENEFICIARY	The entity receiving universal service support. In the Schools and Libraries Program the entity is a school, library, consortium, or other eligible entity that files program forms.
BILLED ENTITY NUMBER (BEN)	A unique number assigned by USAC to each billed entity (school, library, or consortium) that pays for services.
CATEGORY ONE SERVICES	Services used to connect broadband or internet to eligible locations, or services that provide the basic conduit access to the internet. Data transmission services and Internet access, and voice services are category one services. Category one services includes broadband connectivity and basic conduit access to the internet. This does not include charges for content, equipment purchases, or other services beyond basic conduit access to the internet. This service type also covers lit or dark fiber and, in special circumstances, self-provisioning of dark fiber.
CATEGORY TWO SERVICES	Internal connections services needed to enable high-speed broadband connectivity and broadband internal connections components. Category two includes local area networks/wireless local area networks (LAN/ WLAN), internal connections components, basic maintenance of internal connections components, and managed internal broadband services.
CHILDREN’S INTERNET PROTECTION ACT (CIPA)	A law that mandates certain internet safety policy and filtering requirements for recipients of E-rate program discounts for services other than telecommunications services.
DISCOUNT PERCENTAGE	The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers. The discounts available to a particular school, library, or consortium of only such entities shall be determined by indicators of poverty and high cost.
ELIGIBLE ENTITY	An entity that meets the requirements for eligibility to participate in the program.
ELIGIBLE SERVICES	Products and services that are eligible for universal service support.
ELIGIBLE SERVICES LIST	Annual list provided by FCC that contains a description of the products and services that will be eligible for discounts, along with additional information such as eligibility conditions for each category of service for each specified funding year.
E-RATE PROGRAM	The common term used in place of the Schools and Libraries program. With E-rate standing for Educational Rate, the program provides discounts to schools and libraries for eligible products and services.
FCC FORM 470	The Description of Services Requested and Certification Form is an FCC form that schools and libraries complete to request services and establish eligibility.
FCC FORM 471	The Services Ordered and Certification Form is an FCC form that schools and libraries use to report services ordered and discounts requested for those services.
FCC FORM 472 (BEAR)	The Billed Entity Applicant Reimbursement Form is an FCC form that schools and libraries submit to USAC after paying for services, in full, to request reimbursement for the discount on those services.
FCC FORM 474 (SPI)	The Service Provider Invoice Form is an FCC form that service providers submit to request reimbursement for discounted eligible services already provided the schools or libraries on their customer bills.

FCC FORM 500	The Funding Commitment Adjustment Request Form is filed by schools and libraries to notify USAC of reductions to or cancellations of approved FRNs and/or changes to reported Service Start Dates or Contract Expiration Dates, to request a service delivery extension for non-recurring services, or to notify USAC of an allowable equipment transfer.
FEDERAL COMMUNICATIONS COMMISSION (FCC)	U.S. Federal government agency charged with regulating interstate and international communications by radio, television, wire, satellite, and cable.
CODE OF FEDERAL REGULATIONS (C.F.R.)	Codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government.
FUNDING COMMITMENT DECISION LETTER (FCDL)	Summarize the E-rate funds that have been committed and set aside for discounts that had been requested on eligible services.
FUNDING REQUEST NUMBER (FRN)	Number assigned to each request for funding made by applicants.
FUNDING YEAR 2015	The twelve-month period from July 1, 2015 to June 30, 2016 during which E-rate program support is provided (as of December 30, 2016).
FCC OFFICE OF INSPECTOR GENERAL (OIG)	Division of the FCC that investigates complaints or allegations of wrongdoing or misconduct by employees or contractors that involve or give rise to fraud, waste or abuse within the programs or operations of the FCC.
SCHOOLS AND LIBRARIES PROGRAM (SLP)	Program that helps ensure that schools and libraries can obtain high-speed Internet access and telecommunications at affordable rates.
SERVICE PROVIDER INVOICE (SPI)	Form used by Service Providers to request reimbursement from USAC for the discount amount for eligible services and equipment provided to the applicant.
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY (USAC)	An independent, not-for-profit corporation designated by the FCC as the administrator of universal service.
UNIVERSAL SERVICE FUND (USF)	System of telecommunications subsidies and fees managed by the FCC intended to promote universal access to telecommunications services in the United States.

Appendix D: Performance Audit Procedures

The performance audit included procedures related to the E-rate program for which funds were committed and received by the Cullman County School District (Beneficiary) for Funding Year 2015. 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, we examined documentation to support its effective use of funding. We also used inquiries to determine if any individual schools or entities related to the Beneficiary were receiving USAC funded services through separate FCC Forms 471 and FRNs.

We obtained and examined documentation to determine if the Beneficiary complied with the FCC's Children's Internet Protection Act ("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 Bidding Process

We obtained and examined documentation to determine if all bids received were properly evaluated and that the price of 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. The purpose is to ensure a fair and open competitive bidding process for service providers. We reviewed the service provider contracts to determine if they were properly executed. We evaluated the services and equipment requested and purchased for cost effectiveness as well.

3. Discount Calculation Process

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

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)⁹ and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine if the Beneficiary paid its non-discounted share in a timely manner.

5. Effective Use of Services and Equipment

⁹ Service Provider Invoice (SPI): Form used by Service Providers to request reimbursement from USAC for the discount amount for eligible services and equipment provided to the applicant.

We used a simple random sampling methodology to select a sample of schools for testing the effective use of services and equipment received by the Beneficiary. We estimated the required sample size for a population of 26 schools assuming a target precision of 10 percent at the two-sided 90 percent confidence level, using an expected error rate of 15 percent and a compliance rate of 85 percent. A sample of 16 schools were selected from the population of 26 schools for compliance testing using a statistical software package.

For the sample of schools, we performed a physical inventory to evaluate the location and use of equipment and services to determine if it was delivered and installed, located in eligible facilities, and utilized in accordance with the Rules. We evaluated the equipment and services purchased by the Beneficiary to determine if funding was used in an effective manner. We also observed and determined if the E-rate funded equipment and services were operational and being effectively used for their intended purposes.

6. Reimbursement Process

We obtained and examined invoices submitted for reimbursement for the services delivered to the Beneficiary and performed procedures to determine if 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 if the Beneficiary's record retention policies and procedures were consistent with the E-rate program rules. Specifically, we determined if 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 for other audit procedures.