

Performance Audit Conducted on Behalf of the

# Federal Communications Commission

## Office of the Inspector General



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

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## PEKIN SCHOOL DISTRICT 108

Beneficiary ID: 136154

Prepared for: **Federal Communications Commission**  
Office of the Inspector General  
OIG Report No. 19-AUD-02-03

As of Date: April 7, 2020



8350 Broad Street #900  
McLean, VA 22102

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## EXECUTIVE SUMMARY

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April 7, 2020

Mr. David Hunt  
Inspector General  
Federal Communications Commission  
Office of Inspector General  
445 12<sup>th</sup> 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 Pekin School District 108, Billed Entity Number (“BEN”) 136154, (“Pekin” or “Beneficiary”) for disbursements of \$256,171, 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 February 14, 2019 to April 7, 2020, and our results are as of April 7, 2020.

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 orders<sup>1</sup> 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 Rules<sup>2</sup> that resulted in disbursements of \$256,171 made from the E-rate program related to Funding Year 2015. 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.

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<sup>1</sup> 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).

<sup>2</sup> 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”).

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 \$10,943 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**

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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 Pekin School District 108 (“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.

#### Findings:

1. Category two equipment (internal connections needed to enable high-speed broadband connectivity) was not placed into service at the time of the site visit
2. The Beneficiary did not have a formalized competitive bidding process and document retention standards

#### Other Matter:

The Universal Service Fund (“USF”) was over-invoiced by the Beneficiary’s Service Provider. The Service Provider requested and received reimbursement from the USF for ineligible items.

Overall, we determined that disbursements in the amount of \$10,943 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures.

The Service Provider acknowledged the billing errors within their system and has contacted the Universal Service Administrative Company (“USAC”) to discuss further actions.

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

### **What Is Recommended?**

KPMG recommends that:

1. The Beneficiary develop a formal process and controls to ensure funding requests for category two equipment include only items that meet the needs of the school district and are expected to be utilized during the funding year.
2. USAC seek recovery of Universal Service Funds in the amount of \$10,943 from the Beneficiary.
3. The Beneficiary formalize its competitive bidding process by establishing competitive bidding and procurement policies and procedures in accordance with program rules and regulations. The Beneficiary should implement controls designed to safeguard against unfair practices and conflicts of interests and ensure school district compliance with applicable E-rate program rules and regulations.
4. The Beneficiary should also retain E-rate documentation in compliance with 47 C.F.R. Section 54.516(a)(1). Specifically, the Beneficiary must retain vital records that support the bid evaluation process, including details pertaining to the price comparison and qualitative analysis of the bid responses.

## **BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES**

### **Background**

The Federal Communications Commission (“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, up to an FCC established 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 (“NSLP”)

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 Pekin 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

Pekin School District 108 (“Beneficiary”, BEN# 136154), is a school district located in Pekin, IL that serves over 3,700 students.

The following table illustrates the amount committed<sup>3</sup> 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
Internet Access	\$13,539	\$13,539
Voice Services	\$32,406	\$29,414
Internal Connections	\$213,218	\$213,218
<b>Total</b>	<b>\$259,163</b>	<b>\$256,171</b>

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 represents two FCC Form 471<sup>4</sup> applications with seven Funding Request Numbers (“FRN”)<sup>5</sup>. We audited seven FRNs with commitments totaling \$259,163 and disbursements of \$256,171.

**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 \$256,171 made to the Beneficiary from the Universal Service Fund (“USF”) for Funding Year 2015.

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.

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

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

<sup>5</sup> Funding Request Number (“FRN”): A unique number that USAC assigns to each funding request in an FCC Form 471.

## Scope

The scope of this performance audit includes, but is not limited to, the Beneficiary's compliance with the Rules to be eligible 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
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")<sup>6</sup> requirements.

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<sup>6</sup> Children's Internet Protection Act (CIPA): 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 that the Beneficiary waited the required 28 days from the date the FCC Form 470<sup>7</sup> 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.

## **3. Discount Calculation Process:**

- a) Examined and recalculated the discount percentage for accuracy using the 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) Performed a physical inventory to evaluate the location and appropriate utilization of equipment and services in accordance with the Rules.
- b) 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.
- 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 List<sup>8</sup>.

## **7. Record Keeping:**

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

# **RESULTS**

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KPMG's performance audit results include findings, recommendations and an other matter, with respect to the Beneficiary's compliance with FCC requirements. The audit results also include

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<sup>7</sup> 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.

<sup>8</sup> 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](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-14-1556A1.pdf)

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, Recommendations and Other Matter**

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

<b>Finding No. 1</b>	<b><u>Category Two Equipment was not Placed into Service at the Time of the Site Visit</u></b>
<b>Condition</b>	<p>Our audit identified internal control weaknesses in the Beneficiary’s policies and procedures for ensuring all equipment procured with E-rate funds were placed into service. Three network modules procured with Funding Year 2015 E-rate program funds under FRN 2798945 were not in operation at the time of the on-site equipment inspection. One 24-port Network Module, one 20-port Network Module, and one Management Module were in the original manufacturer packaging and appeared unused as of March 2019.</p> <p>Additionally, the auditor noted that 34 transceivers were not installed but were reimbursed under FRN 2798945. The Beneficiary indicated the signal strength of the transceivers was insufficient to support the necessary communications.</p>
<b>Criteria</b>	<p>Per 47 C.F.R. Section 54.507(d) (2014), "The deadline for implementation of non-recurring services will be September 30 following the close of the funding year." As such, the Beneficiary was required to place all equipment procured with E-rate funds into service by September 30, 2016.</p>
<b>Cause</b>	<p>The Beneficiary disclosed that the three network modules were purchased as spare equipment in the event of equipment failure, which is in violation of the rules. For the 34 transceivers, the Beneficiary did not have an adequate process in place to ensure all equipment procured with program funds were placed into service within the specified deadline. Pekin School District 108 officials stated that they were not aware of the requirement to use all category two equipment procured with E-rate funds by the Funding Year’s specified deadline. Additionally, the beneficiary lacked a process to ensure the requested transceivers were adequate to meet the needs of the school district prior to purchasing.</p>

<b>Effect</b>	<p>The monetary effect for this finding is \$10,943 under FRN 2798945 (calculated as the undiscounted cost of the three unused modules and 34 transceivers, totaling \$13,679, multiplied by the Beneficiary’s calculated discount rate of 80 percent).</p> <table border="1" data-bbox="492 394 1435 856"> <thead> <tr> <th></th> <th>(A)</th> <th>(B)</th> <th></th> </tr> <tr> <th>Category Two Equipment</th> <th>Undiscounted Cost</th> <th>Discount Rate</th> <th>Monetary Effect of Audit Results (Column A*B)</th> </tr> </thead> <tbody> <tr> <td>1 HP 24-port Module</td> <td>\$1,374</td> <td>80%</td> <td>\$1,099</td> </tr> <tr> <td>1 HP 20-port Module</td> <td>\$1,641</td> <td>80%</td> <td>\$1,313</td> </tr> <tr> <td>1 HP 5400R Management Module</td> <td>\$954</td> <td>80%</td> <td>\$763</td> </tr> <tr> <td>34 ProCurve 10 GbE Transceivers</td> <td>\$9,710</td> <td>80%</td> <td>\$7,768</td> </tr> <tr> <td><b>Total Impact</b></td> <td><b>\$13,679</b></td> <td></td> <td><b>\$10,943</b></td> </tr> </tbody> </table>		(A)	(B)		Category Two Equipment	Undiscounted Cost	Discount Rate	Monetary Effect of Audit Results (Column A*B)	1 HP 24-port Module	\$1,374	80%	\$1,099	1 HP 20-port Module	\$1,641	80%	\$1,313	1 HP 5400R Management Module	\$954	80%	\$763	34 ProCurve 10 GbE Transceivers	\$9,710	80%	\$7,768	<b>Total Impact</b>	<b>\$13,679</b>		<b>\$10,943</b>
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<b>Recommendation</b>	<ol style="list-style-type: none"> <li>1. The Beneficiary should develop a formal process and controls to ensure funding requests for category two equipment include only items that meet the needs of the school district and are expected to be utilized during the funding year.</li> <li>2. Also, KPMG recommends that USAC seek recovery of Universal Service Funds in the amount of \$10,943 from the beneficiary.</li> </ol>																												
<b>Beneficiary Response</b>	Pekin School District 108 agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.																												
<b>USAC’s Management Response</b>	USAC management concurs with the finding and recommendation. USAC will seek recovery in the amount of \$10,943. The full response is included in Appendix B of the report.																												

<b>Finding No. 2</b>	<b><u>Beneficiary Did Not Have A Formalized Competitive Bidding Process and Document Retention Standards</u></b>
<b>Condition</b>	Our audit identified internal control weaknesses in the Beneficiary’s competitive bidding process for awarding contracts. The Beneficiary does not have a formalized competitive bidding process nor a document retention protocol to substantiate its compliance with E-rate program competitive bidding requirements. The Beneficiary did not produce and/or retain documentation to evidence the evaluation of bids for Funding Year 2015 E-rate program funding requests. We reviewed and evaluated the

	<p>proposals submitted by service providers in response to FCC Form 470 No. 876980001262520.</p> <p>Our review indicated that the Beneficiary selected the most cost-effective vendor in compliance with the rules.</p>
<b>Criteria</b>	<p>Per 47 C.F.R. Section 54.503(a) (2014), “All 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 54.516(a)(1) (2014), “<i>Schools, libraries, and consortia</i>. 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>In addition, the U.S. Constitution, Art. VI states that “This Constitution, and the laws of the United States which shall be made in pursuance thereof; and all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land; and the judges in every state shall be bound thereby, anything in the Constitution or laws of any State to the contrary notwithstanding.”</p> <p>Lastly, the Standards for Internal Control in the Federal Government (the “Green Book”), sets the standards for an effective internal control system for federal agencies (and stewards of federal funds). It provides the overall framework for designing, implementing, and operating an effective internal control system. Principle 8 requires management to assess the fraud risk of opportunity, defined as “Circumstances...such as the absence of controls, ineffective controls, or the ability of management to override controls, that provide an opportunity to commit fraud.”</p>
<b>Cause</b>	<p>The Beneficiary opted to follow the State of Illinois Contract Code and did not abide by the more stringent competitive bidding and documentation retention requirements required by the federal regulations under the E-rate program. The State of Illinois School Contract Code (105 ILCS 5/10-20.21) states that, “[p]urchases and contracts for the use, purchase, delivery, movement, or installation of data processing equipment, software, or services and telecommunications and interconnect equipment, software, and services” are not subject to competitive bidding requirements outlined in the Code.”</p>
<b>Effect</b>	<p>Due to the absence of effective controls, the Beneficiary did not provide reasonable assurance that its competitive bidding process was fair and open. The Beneficiary was unable to provide evidence that its competitive</p>

	bidding process safeguarded against opportunities for unfair practices or biases.
<b>Recommendation</b>	<ol style="list-style-type: none"> <li>1. The Beneficiary should establish written competitive bidding and procurement policies and procedures in accordance with federal program rules and regulations. The Beneficiary should implement controls designed to safeguard against unfair practices and conflicts of interests and ensure school district compliance with applicable E-rate program rules and regulations.</li> <li>2. Additionally, processes should be established to ensure that key documents are retained in compliance with 47 C.F.R. Section 54.516(a)(1). Specifically, the Beneficiary should retain vital records that support the bid evaluation process, including details pertaining to the price comparison and qualitative analysis of the bid responses.</li> </ol>
<b>Beneficiary Response</b>	Pekin School District 108 agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.
<b>USAC’s Management Response</b>	USAC management concurs with the finding and recommendation, and concurs that the Beneficiary should strengthen its internal controls within its E-rate competitive bidding process and document retention protocol. The full response is included in Appendix B of the report.

**Other Matter**

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

<b>Other Matter</b>	<b><u>Service Provider Over-Invoiced the USF for Services Provided to the Beneficiary</u></b>
<p>In Funding Year 2015, the Beneficiary received Voice Services from service provider, Verizon Wireless (“Verizon”) for Cellular Phone Service, under FRN 2798317. Review of the service provider agreement and related bills indicated that the service provider billed the Beneficiary for voice services at rates that exceeded contractual rates for eligible services. The service provider requested reimbursement of \$1,450 from the USF for E-rate services provided to the Beneficiary. The actual eligible costs totaled \$1,378. As a result, the service provider’s billing system applied an excessive E-rate discount to the cost of voice services, which resulted in the Beneficiary being billed at a lower rate than the contractual rate.</p> <p>The monetary impact of this matter for FRN 2798317 is an over-reimbursement to the service provider in the amount of \$72 (calculated as the difference of the reimbursement requested by the service provider and the recalculated eligible discounted portion). We contacted the service provider, Verizon, for more information.</p> <p>On May 7, 2019, Verizon provided a response to our inquiry of the matter.</p>	

<p><b>Service Provider Response</b></p>	<p>[Verizon] became aware that an issue was occurring during the third quarter of 2016. At that time, [we] began investigating to determine what was occurring and the scope of the issue, including how the E-rate discounts were appearing on affected customers’ bills and how the contractual discount was impacting the cost allocations for eligible and ineligible components of affected price plans. It took some time to understand what was transpiring, what customers were impacted, and how to calculate the amount by which the allocations to eligible components were overstated.</p> <p>[We] identified the system limitation as a result of certain E-rate customer inquiries relating to why the amount of their E-rate discounts did not match the cost allocation information provided in their service quotes.</p> <p>Beginning in December 2016, [Verizon] initiated an evaluation of whether its billing system could be modified to resolve the system limitation. However, when such system modifications did not prove practical or workable, [Verizon] then focused its efforts on the development of a more manual approach to re-calculate E-rate discounts on a month-to-month basis. Because E-rate discounts ordinarily are subject to a number of adjustments in the normal course (such as pro-rated charges occurring with price plan changes, and new or disconnected lines of service and other issues), there was no readily available way to recalculate and re-issue monthly invoices for impacted customers for the prior periods.</p> <p>Ultimately, [we] developed an automated solution that would re-calculate E-rate discounts outside the billing system on a going forward basis. That solution was implemented for Funding Year 2018 (beginning with the August 2018 billing cycle). But, because the solution could not be used to re-calculate discounts applied for prior periods, [we] developed a separate process through which it could account for all adjustments and capture all of the overcharges for the prior periods by FRN for each funding year (Funding Years 2015-17). [We have] described and discussed this approach with USAC.</p> <p>[Verizon] identified the service plans impacted by the system limitation issue for Funding Year 2018 and is using the automated solution to correct the issue for current and future invoices. Current invoices for Funding Year 2018 are billing correctly. In addition, invoices now are subject to regular review to ensure there is no reoccurrence (or other issues).</p>
<p><b>Beneficiary Response</b></p>	<p>Pekin School District 108 agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.</p>

<b>USAC’s Management Response</b>	USAC management concurs with the other matter. Pekin’s service provider, Verizon, developed a new automated solution in Funding Year 2018 to correctly calculate E-rate discounts. Verizon stated that the overbilling issue was corrected. USAC is working with Verizon to validate Verizon’s response in this audit and with its other affected customers. The full response is included in Appendix B of the report.
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### Conclusion

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:

Findings:

1. Category two equipment (internal connections needed to enable high-speed broadband connectivity) was not placed into service at the time of the site visit
2. The Beneficiary did not have a formalized competitive bidding process and document retention standards

Other Matter:

The Universal Service Fund (“USF”) was over-invoiced by the Beneficiary’s Service Provider. The Service Provider requested and received reimbursement from the USF for ineligible items.

We determined that disbursements in the amount of \$10,943 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures.

Detailed information relative to the findings is described in the Findings, Recommendations and Other Matter section above.

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

Service Type	Monetary Effect of Audit Results	Recommended Recovery
Internal Connections	\$10,943	\$10,943
<b>Total Impact</b>	<b>\$10,943</b>	<b>\$10,943</b>

KPMG recommends that:

1. The Beneficiary develop a formal process and controls to ensure funding requests for category two equipment include only items that meet the needs of the school district and are expected to be utilized during the funding year.
2. USAC seek recovery of Universal Service Funds in the amount of \$10,943 from the Beneficiary.
3. The Beneficiary formalize its competitive bidding process by establishing competitive bidding and procurement policies and procedures in accordance with program rules and regulations. The Beneficiary should implement controls designed to safeguard against unfair

practices and conflicts of interests and ensure school district compliance with applicable E-rate program rules and regulations.

4. The Beneficiary should also retain E-rate documentation in compliance with 47 C.F.R. Section 54.516(a)(1). Specifically, the Beneficiary must retain vital records that support the bid evaluation process, including details pertaining to the price comparison and qualitative analysis of the bid responses.

## APPENDICES

### Appendix A: Beneficiary Response



**Angela Arnold**

Technology Center Supervisor  
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angie.arnold@pekin108.org

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

I am writing in response to our performance audit for the Universal Service E-Rate Schools and Libraries Program disbursements related to funding year 2015. (Beneficiary ID: 136154)

**Finding No. 1** – Category Two equipment was not effectively being used at the time of the site visit

#### **Beneficiary Response**

Pekin School District 108 will review the online training materials provided by USAC on its website. In addition, we will review the current Eligible Services List each year to assure that we are adhering to the guidelines outlined in the E-rate program.

In the future, all funding requests for Category Two equipment will be limited to exact number needed to complete the project. No spare equipment will be ordered. In regards to the 34 transceivers, we will work with vendors in the future to assure that they will accept returns on equipment that they recommend in the event it does not work in our environment. In the event of a future service substitution, the district will contact USAC and work with them to complete the required service substitution forms. All expenditures will be documented and reconciled with amounts billed by Service Providers.

In addition, we understand that we will be asked to refund \$10,943 in Universal Service Funds.

**Finding No. 2** – Beneficiary does not have a formalized competitive bidding process and document retention standards

#### **Beneficiary Response**

Pekin School District 108 will review the online training materials provided by USAC on its website. In addition, we will review the current Eligible Services List each year to assure that we are adhering to the guidelines outlined in the E-rate program.

Our competitive bidding process will be formalized in the following manner. A review committee will be established that includes the Technology Director, Network Administrator, and Chief Technician. Each person on this committee will individually review the bids received and record notes as they review.

Once the bids are individually reviewed by all members, the committee will convene and discuss the bids. A rubric will be developed and completed that shows each vendor, bid price and any notes the committee has about the bids. Notes will be kept of the discussion and the final decision. All related documentation (individual and group paperwork) will be filed with the E-rate paperwork for the funding year and kept for at least ten years, as outlined in the regulations.

**Other Matter – Service Provider Over-Invoiced the USF for Services Provided to the Beneficiary**

**Beneficiary Response**

Pekin School District 108 will review all bills from service providers and document monthly the billed amounts in a spreadsheet. Amounts billed will be reviewed to ensure we are billed in accordance with the terms and conditions established during the bidding process. Paper copies of all bills will be filed with the final spreadsheet and E-rate paperwork for the funding year and kept for at least ten years, as outlined in the regulations.

Thank you for allowing us the opportunity to respond to the findings of our audit.

Sincerely,



Angela Arnold

## Appendix B: Management's Response



*Via Electronic Mail*

March 12, 2020

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 Pekin School District 108 (Report No. 19-AUD-02-03)

Dear Mr. McGriff:

The Universal Service Administrative Company (USAC) is providing its response to the above-referenced draft report regarding a performance audit of Pekin School District 108 (Beneficiary or Pekin), a Universal Service Fund (USF) Schools and Libraries (also known as “E-rate”) program Beneficiary. The Federal Communications Commission (FCC) 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. Specifically, the auditors determined that the Beneficiary: (1) invoiced USAC for equipment that was used for backup purposes and never installed, (2) had inadequate internal controls within its E-rate competitive bidding process and document retention protocol, and (3) received services from its service provider at an inflated E-rate discount rate.

USAC’s management response to the two findings and other matter is below.

### **USAC Management Response to Finding One:**

USAC management concurs with the finding and recommendation. USAC will seek recovery in the amount of \$10,943. USAC will also request Pekin provide policies and procedures it has established to ensure it is compliant with FCC rules regarding equipment use and invoicing.

### **USAC Management Response to Finding Two:**

USAC management concurs with the finding and recommendation, and concurs that the Beneficiary should strengthen its internal controls within its E-rate competitive bidding process and document retention protocol. Section 54.503(a) of the Commission’s rules provides that 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.

Although the Beneficiary did not have a formalized competitive bidding process or document retention protocol in place to substantiate its compliance with E-rate program rules, the auditors reviewed the proposals

Pekin received in response to FCC Form 470 No. 876980001262520 and determined that Pekin selected the most cost-effective provider in compliance with the rules.

Based on the information presented in the audit report, USAC does not have any questions or concerns about the finding. USAC will request Pekin provide policies and procedures it has established to ensure a formalized competitive bidding and document retention protocol is in place going forward.

**USAC Management Response to Other Matter:**

USAC management concurs with the other matter. Pekin's service provider, Verizon, developed a new automated solution in Funding Year 2018 to correctly calculate E-rate discounts. Verizon stated that the overbilling issue was corrected. USAC is working with Verizon to validate Verizon's response in this audit and with its other affected customers.

This concludes USAC Management's response to the two above-referenced findings and one other matter for the Pekin School District 108 draft performance audit report. Please let us know if you have any questions or need further information.

Sincerely,

//s//

Catriona Ayer  
Vice President of Schools and Libraries Division

## 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.
BASIC MAINTENANCE OF INTERNAL CONNECTIONS (BMIC)	Type of category two service that covers the repair and upkeep of eligible internal connections.
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.

Term	Definition
FCC FORM 498	The Service Provider and Billed Entity Identification Number and General Contact Information Form issued to collect contact, remittance, and payment information from service providers and applicants receiving universal service support. Service providers must fill out this form to participate in any of the universal service programs. As of July 1, 2016, applicants who choose the Billed Entity Applicant Reimbursement (BEAR) payment method will need to file this form to receive an ID number (498 ID) for reimbursement payments.
FCC FORM 486	The Receipt of Service Confirmation and Children’s Internet Protection Act Certification Form is an FCC form that schools and libraries file to inform USAC that services have begun, and of their CIPA compliance.
FCC FORM 479	The Certification by Administrative Authority to Billed Entity of Compliance with the Children’s Internet Protection Act Form is an FCC form that consortium members (the administrative authority for CIPA purposes) submit to their consortium leader to certify that they are in compliance with the Children’s Internet Protection Act. After all FCC Forms 479 are collected, the consortium leader can accurately complete the FCC Form 486.
FCC FORM 473 (SPAC)	The Service Provider Annual Certification Form is an FCC form that service providers file annually to certify that they will comply with program rules and guidelines. This form must be filed before USAC will pay invoices.
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 Pekin School District 108 (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 inquiry 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) 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**

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 Service Provider Invoice (“SPI”)<sup>9</sup> 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.

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<sup>9</sup> 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.